REPORT

OF THE

BIHAR AND ORISSA

COMMITTEE ON CO-OPERATION

1931-32.

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BIHAR AND ORISSA, PATNA,
1932.

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FROM

H. R. BATHEJA, ESQ., M.A., I.E.S.,
SECRETARY TO THE BIHAR AND ORISSA
COMMITTEE ON CO-OPERATION,

To

THE SECRETARY TO THE GOVERNMENT
OF BIHAR AND ORISSA, EDUCATION AND
DEVELOPMENT DEPARTMENT.

Patna, the 2nd April 1932.

SIR,

I AM directed to submit herewith the report of the Bihar and Orissa Committee on Co-operation.

I have the honour to be,
SIR,
Your most obedient servant,

H. R. BATHEJA,
Secretary.

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PART I.

INTRODUCTORY.

CHAPTER I.

The Committee and its work.

1. *Constitution of the Committee.*—The Bihar and Orissa Committee on Co-operation was constituted in accordance with a generally expressed wish of the co-operators of the province, and on the specific recommendations of the Royal Commission on Agriculture and the Bihar and Orissa Provincial Banking Enquiry Committee. The Government resolution appointing the Committee was issued on the 28th August 1931 and defined its terms of reference as follows :—

"The duties of the Committee shall be to review the present condition of co-operative institutions in Bihar and Orissa and to make recommendations for the improvement of co-operation in the province."

The personnel of the Committee so constituted was—

(1) Mr. J. A. Hubback, I.C.S., *President.*

(2) Khan Bahadur Saghirul Haque, *Member.*

(3) Rai Bahadur Syamanandan Sahaya, *Member.*

(4) Rai Sahib Mihir Nath Roy, *Member,*

and

(5) Mr. H. R. Batheja, I.E.S., *Member-Secretary.*

All members of the Committee have served throughout the period of its enquiries.

2. *Preliminary meeting at Ranchi.*—The first meeting of the Committee was held at Ranchi on the 14th and 15th October 1931, when the programme of work was laid down and the draft questionnaire prepared by the Member-Secretary was considered

and approved. The list of persons and institutions to whom the questionnaire should be sent was settled. To reduce the expenses of copying and to enable the Committee to finish its work within the very short time allotted to it, witnesses were requested to send six typed copies of their memoranda for distribution to the members. It was further resolved to take verbatim reports of the oral evidence of the most important witnesses only, and it was agreed that it would not be necessary to print any of the evidence. As there were no representatives of Orissa and Chota Nagpur on the Committee, it was arranged, with the concurrence of Government, that Rai Sahib Prafulla Chandra Patnaik from Orissa and Babu Tara Prasanna Ghosh from Chota Nagpur should be co-opted as additional members to assist the Committee during their tours in those divisions.

The Committee further considered a question relating to the Provincial Bank referred to it by Government.

3. *Preliminary office work and issue of the questionnaire.*—The Secretary joined his duties as a whole-time officer at Patna on the 28th October 1931 and the office was formed immediately after. The President took over his duties on the 9th of November 1931. Copies of the questionnaire had already been issued in the last week of October through the office of the Registrar of Co-operative Societies to all the chief officials and non-officials connected with the co-operative movement in the province, to the members of the Council of State and of the Legislative Assembly representing the province, as well as to all members of the Legislative Council. Copies were also sent to the District Officers for distribution to officers serving under them, to professors of economics and to various heads of departments. In all 452 copies of the questionnaire were distributed.

4. *Special enquiries.*—In addition to the general questionnaire, special circulars were issued requesting the central banks visited by the Committee to collect information about their staff, constitution and financial position and to prepare brief notes of some selected primary societies affiliated to them which were inspected by the Committee. Notes on some special aspects of co-operation were also invited from the officers of the Co-operative Department and other officers. Over and above these special enquiries, all central banks were asked to frame family budgets of members of seven typical primary societies affiliated to them in order to exhibit their economic conditions before and after the general depression set in. In all 5,448 family budgets were prepared.

5. *The Patna programme.*—The Committee assembled at Patna on the 10th November 1931 and inspected the Bihar and Orissa Provincial Co-operative Bank and examined informally Mr. Thakore,

the Secretary of the Bank. On the 11th the Dinapore Central Bank and its affiliated primary societies were visited. After the oral examination of the Registrar of Co-operative Societies on the 12th November 1931, the Committee toured from 13th to 17th November 1931 in the Bhagalpur, Monghyr and Gaya districts visiting the Central Co-operative Banks situated at the headquarters of those districts and at Jahanabad as well as affiliated societies. The Durga Prashad Training Institute was visited at Sabour. On the 18th and 19th the Secretary of the Bihar and Orissa Co-operative Bank was formally examined and in the afternoon of the 19th and of the 21st the Bankipur Traders' Bank and the Peoples' Bank at Patna were respectively inspected. On the 22nd and 23rd November 1931, the Committee toured in the Muzaffarpur district visiting the Hajipur and Sitamarhi Central Co-operative Banks and affiliated societies. Similar visits were paid to Futwah and Arrah on the 25th and 27th November 1931, while the Secretary of the Co-operative Federation was formally examined on the intervening day. On the 28th November at Patna we began the formal oral examination of Bihar witnesses from the three divisions of Patna, Tirhut and Bhagalpur and continued this work till the 9th December 1931 when we left for Orissa.

6. *The Orissa and Chota Nagpur programme.*—From 11th to 16th December 1931, the Committee examined Puri witnesses at Puri and the other Orissa witnesses at Cuttack, and on the days when not engaged in this way inspected the Puri and Khurda Central Banks with their primary societies and the Cuttack Training Institute. On the 16th December 1931, the Committee left for Jamshedpur where we examined on the 18th the Tata Iron and Steel Company's employees' societies. On the 19th morning we left for Ranchi by road visiting the Chaibassa Central Co-operative Bank and its primary societies on the way. From the 20th to 23rd December, the oral examination of Chota Nagpur witnesses was carried through. During the same period the Committee visited the Masmano Village Welfare Society and the Khunti Central Co-operative Bank and its affiliated societies including a visit to the Peloul Village Welfare Society. The 24th December was devoted to a general discussion by the Committee of the evidence collected. Brief intervals on other days at Patna and Ranchi had been similarly utilized, in order that the lines on which the report was to be drafted might be laid down. The Committee dispersed on the 24th December 1931, but the President and Member-Secretary remained at Ranchi to draft the report. With very few exceptions the whole Committee was assembled on all occasions, and consequently each member has actually heard and seen very nearly all the evidence placed before us. In all 13 central banks and 79 primary societies were visited, besides the Provincial Bank, the two training institutes, two traders' banks and a number of industrial

workers' societies at Jamshedpur. The Committee also examined 37 formal witnesses besides talking informally to a number of other persons, held three meetings for its own discussions and travelled 1,598 miles by rail and 766 miles by road.

7. *Analysis of witnesses examined.*—At the four centres, Patna, Puri, Cuttack and Ranchi, 21, 4, 8 and 4 witnesses were formally examined or 37 in all. The witnesses comprise 9 officers of the Co-operative Department, 17 representatives of Central Co-operative Banks, 1 of the Provincial Co-operative Bank, 1 of the Provincial Co-operative Federation, 2 Assistant Auditors, 2 Managers of Central Banks and 5 Government officials not at present directly connected with the co-operative movement. Besides these a large number of official and non-official witnesses were informally examined by the Committee at the headquarters of the central banks and primary societies visited by the Committee during its tour. We received in all 105 memoranda in reply to our questionnaire.

8. *Closing of the office and cost of the enquiry.*—The President took over charge of his duties as Commissioner of Chota Nagpur Division on the 15th of January 1932. The Committee met continuously from the 8th to the 18th of February to consider the draft report and reassembling again on the 2nd April passed it subject to minor corrections on that date. The Member-Secretary reverted to his substantive post on the 16th March 1932. The office of the Committee finally closed on the 15th March 1932. The records of the Committee are deposited in the office of the Registrar of Co-operative Societies, Bihar and Orissa. The total cost of the Committee was approximately twenty-three thousand rupees.

CHAPTER II.

The history of the co-operative movement in Bihar and Orissa.

9. *Origin of the movement.*—The early history of the co-operative movement in India culminating in the Act of 1904 is briefly given in Chapter XIII of the Report of the Royal Commission on Agriculture in India. The first co-operative society in Bihar was started by Mr. Lyon in Purnea. In Bengal, of which Bihar and Orissa then formed a part, the local Director of Land Records and Agriculture was placed on special duty in 1901-02 to enquire into the suitability of co-operation for the province. Through his exertions several societies were established and some of them were still in existence when as a result of the passing of the first Co-operative Credit Societies Act of 1904, the first Registrar of Co-operative Societies for Bengal, Mr. Gourlay, was appointed on the 6th September of that year. He was succeeded by Mr. Buchan in whose time Bihar and Orissa became a separate province, with Sir Laurie Hammond, the present Governor of Assam, as its first Registrar of Co-operative Societies. The first societies in Bihar and Orissa were registered in 1905 and were 15 in number while 75 and 91 more were started in 1906 and 1907 respectively. Out of these 181 societies started in the first three years, as many as 126 had been closed by the time the new province came into being. The first Central Bank, the Rohika Union, was started in December 1909.

10. *Initial aims and some early workers of the movement.*—All the early societies in this province as in other provinces were of the credit type, since the principal object of the movement was to relieve the crushing burden of rural indebtedness. The operation of the Act of 1904 was deliberately restricted to credit only. While it was inevitable, seeing that the policy of starting co-operative societies initiated with Government and was not the outcome of any popular demand, that a Government department charged with the carrying out of the policy should be established, it was the aim in Bengal, as elsewhere, from the first to create a popular movement, complete and self-dependent but under the general control of the Registrar. Official agency in organizing and supervising societies was kept down to a minimum. The line of action actually pursued was to select suitable areas, to secure local honorary organizers in each, and when the societies had acquired sufficient experience, to combine them in central co-operative

institutions for purposes of finance and control. The policy was so consistently pursued, that as late as 1912 the Registrar's departmental staff consisted of only one personal assistant and three auditors, of whom the present Assistant Registrar of Patna, Babu Mathura Prashad, was one. These were employed to carry out the annual official audit required by law, while the local organization and direction of the work was left in the hands of the societies and the honorary organizers. Amongst the latter may be mentioned Mr. R. S. King, Mr. C. R. Macdonald, Rev. Paul Wagner, Mr. H. A. Renny, Mr. Justin Finch and lastly Rai Bahadur Radha Gobinda Chowdhury, whose tragic death in a motor accident, a few days after he had given evidence before us at Ranchi, the Committee deeply deplore. These were connected with the Bhaptiahi, Daulatpur, Purulia, Rohika, Mangalgarh (Darbhanga) and Ranchi areas respectively. The official staff of the districts, without having any specific connection with the work, were called upon to render and did in fact render as much friendly assistance as possible, and it is interesting to find that the late Khan Bahadur Mohiuddin Ahmad and Rai Bahadur Durga Prashad (both of whom afterwards became Registrars) were among those mentioned in the 1910-11 report as having shown great interest in the movement.

When Bihar and Orissa was separated from Bengal in the year 1912, there were in the province 22 societies with limited liability, chiefly in urban areas, 508 rural societies with unlimited liability, and 8 central banking unions to which 215 societies were affiliated. The total membership of the societies on 31st March 1912 was 26,739 and the total working capital employed Rs. 8,74,201.

11. *Policy after separation.*—After the separation of Bihar and Orissa from Bengal in 1912 and the passing in the same year of the new Co-operative Societies Act, which permitted non-credit societies and central institutions of a new type to be started, the co-operative movement in this province entered on a new phase. The difficulties mentioned by Sir Laurie Hammond in the 1912-13 report were those due to inadequate finance, absence of supervision, paucity of Indian honorary workers and insufficient departmental staff. Finance in the early stages was found partly by Government and, in North Bihar, partly by the Darbhanga Raj officials and planters, who sympathized with the aims of the movement and saw in it a sound business investment. It was at that time the declared policy of the European non-official workers in North Bihar as well as of the department to redeem all the old debts of the members so as to free them completely from their *mahajans*. For this more funds were needed than could be obtained from these sources. At the same time the absence of continuous and organized supervision was held to account for the large mortality amongst societies in the early stages of the movement. For both these difficulties, of finance and supervision, the solution adopted was the

starting of central banks. In the report mentioned above, Sir Laurie Hammond wrote :—

" At first I was doubtful as to the advisability of starting a central society until some experimental rural societies had demonstrated the need for the larger institution. The success of the experiment initiated by the late Mr. Buchan at Madhipura where a central society, superimposed on some 22 societies, which were more or less declared failures, not only infused new life into those societies, but also extended operations with, up to the present, marked success, has led me to believe that the most successful method of bringing co-operative societies into existence is to start a central bank where the necessary conditions appear to exist.

* * * * *

" Every Subdivisional Officer has at the present moment a great opportunity. He has only to enquire to realize the need for co-operative societies. He should be able to arrange for the necessary organizers, selecting them as far as may be from all classes, official or non-official, and then by personal encouragement and example get a central bank started and financed, which in the course of a few years should really be independent of official encouragement.

* * * * *

" It is therefore not only essential that the members should be fully financed in the first instance, but equally imperative that throughout the year temporary accommodation should be available. Hence the need for cash credits."

12. *A new type of central bank.*—The central banks were thus to supply not only finance up to the full extent of clearing off outside debt but also the supervision which, owing to inadequate official staff which at that time consisted of the Registrar, his personal assistant and three auditors, the societies badly needed. For some time the functions of finance and supervision had been discharged by banking unions consisting of representatives of societies without any outside element in the shape of preference and individual shareholders. The first two unions in this province—the Rohika and Banki Unions were organized on these lines, but they were really run by their honorary organizers and in this sense they were hardly co-operative in character.

The need of an outside element, which would supply the business ability and local influence, as well as the finance, required by the societies was felt. This was supplied first by the Nawadah Central Bank started in May 1910, which in addition to affiliated societies had preference shareholders qualified to undertake their business management and supervision. The Registrar noted in his report

that the fact that such supervision is not altogether disinterested is not entirely a matter of regret. That the Nawadah Bank was the first example of purely Bihari co-operative enterprise lent it additional interest and importance and caused it to be regarded as the model on which subsequent central banks should be started. The alternative model of the central union, in which there are no shareholders except the primary societies, has, however, not been superseded, since 20 out of the present total of 67* central financing bodies follow that model. About the same time the need of a balancing centre and an institution for keeping the fluid resources of the movement was beginning to be felt, and the scheme for a Provincial Apex Co-operative Bank was mooted, and ultimately realized in the year 1914. The Provincial Bank has all along also financed societies which are not affiliated to any central bank.

13. *Rapid progress.*—The finances of the movement being thus assured, it made until recently rapid progress, at least so far as numbers and members of societies and central banks and growth of capital are concerned. This is seen from the following statements regarding credit societies and central banks including the Provincial Bank from 1912-13 onwards :—

The growth of credit co-operative societies.

Year.	Number of societies.	Number of members of societies.	Working capital.	Reserve.	Profit for the year.
			Rs.	Rs.	Rs.
1912-13	.. 573	21,225	9,39,142	75,698	40,294
1913-14	.. 795	39,781	14,41,889	95,349	78,395
1914-15	.. 1,056	48,060	18,66,322	1,50,109	1,00,431
1915-16	.. 1,259	54,150	21,77,780	2,20,221	1,31,470
1916-17	.. 1,380	59,543	23,55,607	2,99,846	1,28,870
1917-18	.. 1,657	64,349	32,19,878	3,97,145	1,33,348
1918-19	.. 2,105	70,179	37,48,021	4,67,973	2,58,843
1919-20	.. 2,824	84,731	42,51,840	5,73,163	2,46,778
1920-21	.. 3,319	99,190	50,88,583	6,89,009	2,76,225
1921-22	.. 3,949	121,308	73,09,205	9,06,082	2,99,950
1922-23	.. 4,772	144,632	96,88,572	10,73,509	3,17,512
1923	.. 5,203	156,381	1,28,90,674	13,34,618	2,67,891
1924	.. 5,975	170,955	1,53,11,197	15,38,534	3,91,469

* *Note.*—Throughout the report the term " central bank " covers both kinds of financing body, unless otherwise indicated.

The growth of credit co-operative societies—concld.

Year.	Number of societies.	Number of members of societies.	Working capital.	Reserve.	Profit for the year.
			Rs.	Rs.	Rs.
1925	.. 6,717	188,885	1,79,08,082	18,44,569	4,10,525
1926	.. 7,726	219,407	2,20,05,891	21,66,587	5,00,927
1927	.. 8,079	239,030	2,32,35,425	24,91,864	4,53,442
1928	.. 8,649	247,527	2,63,12,324	29,11,076	5,55,965
1929	.. 8,835	253,049	2,71,57,892	33,23,383	5,51,399
1930	.. 8,935	245,371	2,71,85,205	34,84,283	6,10,828

The growth of central banks, including the Provincial Bank.

Year.	Number of banks.	Working capital.	Reserve.	Profit for the year.
		Rs.	Rs.	Rs.
1912-13	8	4,46,955	2,290	11,459
1913-14	12	8,02,575	25,804	28,423
1914-15	20	14,10,826	28,352	48,646
1915-16	21	20,72,958	48,794	59,984
1916-17	22	22,55,335	65,976	62,263
1917-18	22	27,93,125	86,245	30,757
1918-19	32	33,32,203	1,05,421	63,953
1919-20	39	41,57,865	1,43,105	1,17,521
1920-21	42	65,07,438	1,88,629	97,677
1921-22	46	86,12,259	2,28,365	1,89,130
1922-23	49	1,14,02,718	2,99,799	2,54,116
1923	58	1,48,68,340	3,46,848	1,96,401
1924	58	1,83,82,775	4,65,118	3,00,892
1925	59	2,19,61,792	5,50,578	3,92,139
1926	64	2,47,00,026	6,87,939	3,98,171
1927	66	2,64,65,300	7,71,914	4,89,964
1928	68	2,93,80,794	9,87,960	5,30,153
1929	68	3,02,29,324	11,12,210	6,57,391
1930	68	3,09,88,688	14,63,897	6,10,982

14. *Non-credit and non-agricultural societies.*—Up to 31st March 1913 there were no registered societies in existence in the province save credit societies. Father Hoffman of the Roman Catholic Mission had indeed started a big co-operative purchase and sale society at Ranchi for supplying all the requirements of Christian aborigines and for selling their produce so as to make them entirely independent of the *mahajans*. This was, however, before the Act of 1912 was passed, and so it could not be registered. It seems to have failed soon after as we do not hear any more about it after 1913-14. The 1912-13 report mentions a durrie-maker's society in Patna, a cabmen's society in Gaya and an ekkawalas' society at Nawada. The Ranchi Union had in the same year a number of non-agricultural societies catering for jolahas, chamars and darzis affiliated to it. Societies for carpenters, blacksmiths, shoemakers, fishermen, goalas, domes, were gradually started and other special societies such as dairy, printing press, and credit societies for industrial workers came into being. Progress in such non-agricultural societies, a difficult form of co-operation, was necessarily slow. Most of them were credit societies. The progress of non-credit side of the movement was even slower as the following statement shows :—

The growth of non-credit societies.

Year.	Number of societies.	Number of members of societies.	Working capital.	Reserve.	Profit or loss for the year.
			Rs.	Rs.	Rs.
1912-13 ..	Nil	Nil	Nil	Nil	Nil.
1913-14 ..	2	9,866	52,426	15	10,958
1914-15 ..	12	4,661	70,889	277	588
1915-16 ..	17	5,304	76,764	647	—1,175
1916-17 ..	22	6,763	1,06,506	1,125	2,285
1917-18 ..	23	8,011	96,534	2,327	4,085
1918-19 ..	33	9,108	1,48,457	4,440	—393
1919-20 ..	84	11,361	3,09,691	8,383	—57,027
1920-21 ..	139	8,324	6,97,877	45,723	37,031
1921-22 ..	173	7,107	6,42,616	18,069	24,783

The growth of non-credit societies—concld.

Year.	Number of societies.	Number of members of societies.	Working capital.	Reserve.	Profit or loss for the year.
			Rs.	Rs.	Rs.
1922-23 ..	190	7,851	8,26,356	22,165	16,150
1923 ..	217	7,756	9,55,358	36,729	5,608
1924 ..	223	10,255	10,90,158	34,818	1,036
1925 ..	245	9,513	11,53,901	49,077	—3,369
1926 ..	256	9,079	8,78,426	52,501	—58,559
1927 ..	221	4,596	5,21,794	38,413	10,660
1928 ..	256	7,810	8,18,379	85,793	—11,559
1929 ..	218	8,179	8,22,956	88,351	—42,066
1930 ..	215	9,091	7,15,411	74,824	—66,607

15. *Review of policy and progress up to 1922.*—The policy of the movement in the first ten years of its existence after the separation of the province was to have as little Government control as possible, and to leave the organization, finance and supervision of societies to non-official honorary organizers with such help as the district and subdivisional officers could afford to give. It sought to multiply central banks as fast as possible, in some places before many societies were started, and to finance members fully for all purposes including sradhs, marriages and debt redemption in order to release the debtor completely from the clutches of the *mahajan*. There were inherent defects in this policy which were perceived after lapse of time. In many areas, the ground was never thoroughly prepared and societies were started, as an early Registrar wrote, " by standing in a field with a bag of rupees ". Successive reports bear testimony to the fact that it was difficult to convince the members of societies that their loans were not *takavi* advances. No suitable provision was made for supervision or training by the department, since at that time official intervention was regarded as undesirable. In the annual report of 1913-14 it was stated that " a society started by the Registrar or any of his assistants was unlikely to last long: official societies were justified only as experiments ". In the interests of administrative symmetry and expansion it was laid down as an ideal that there was to be a central bank for each

subdivision—an ideal which has, within recent years, been practically fulfilled. While the number of societies increased the number of members per society in some cases decreased and this made for uneconomical working and lower profits. Thrift was not much in evidence and the proportion of owned to borrowed capital in societies remained small, while as a result of the policy of " full finance " many loans from the very outset were long-term loans.

Doubts on this question began to assail the department as early as 1914 when Mr. Collins who succeeded Sir Laurie Hammond as Registrar wrote as follows in his 1913-1914 report :

" In this province there are two opposite schools, one the North Bihar school exemplified in Messrs. King and Macdonald, which holds that no society can succeed unless the members are all cleared of debt before being admitted into it; the other which prevails in Nawada and Banki areas, which believes that for the first year or two small loans should be given for productive purposes only, and if possible the members should then be allowed to pay off their old debts gradually. My predecessor adhered to the former, but, though I started in the same opinion, after a year's experience I have become a convinced adherent of the latter. The North Bihar tenet is attractive and seems sound in theory, but in practice it is less successful. It fails because of the character of the people with whom we have to deal."

In spite of this admission the practice of redeeming old debts was not seriously modified as he added later on in the same report :

" In coming to this conclusion I have been influenced not so much by theory as results which, as far as I can judge, are much better from the slower method. And I adopt it subject to the reservation that societies should always keep in view the payment of old debts as a most important task to be carried out as soon as is prudent and that exceptions will always have to be made in individual cases. I propose in future to recommend this system for all new areas."

It is a pity that these ideas were lost sight of later.

16. *The co-operative boom.*—Under his successor Khan Bahadur Mohiuddin Ahmad, who was Registrar for the greater part of the period between 1915 to 1925, expansion was rapid. A number of circumstances conspired together to produce a mild co-operative boom during and immediately after the War. In the first five years prices of rural commodities advanced by 60 per cent, and though a drop of about 20 per cent followed in the next quinquennium the level at the end of the full period was 33⅓ per cent above what it was at the beginning. Thus at the same time the borrowing capacity of the raiyats and the lending resources of the professional classes

were markedly increased. To this large middle class capital seeking investment, co-operative banks resting on Government support and unlimited liability offered the best security and the highest return, in most cases 8 per cent for deposits and often 10 per cent dividends on shares. Other uses of co-operative banks, besides being safe and lucrative channels of investment, were soon discovered. While the movement continued to attract people, who like its pioneers were mainly interested in helping the poorer classes, its possibilities for other less purely benevolent ends had their appeal. Government and its officers looked with an eye of favour on a movement which made collections of public dues easy, reduced the demand for *takavi* and promised so much for the economic improvement of the masses. To those raiyats, who may still be described by the old Sanskrit saying " they borrow money and drink ghee ", a generous and lenient lender needed little recommendation.

17. *Rectifications of defects.*—A system, which often provided more money than was legitimately needed by the members of societies, and still more frequently more than they could repay in the few instalments fixed, had in it seeds of future trouble. Inadequate organization and insufficient training and supervision accentuated that trouble. Most of the original honorary organizers were men of leisure who had time and energy for looking after the few societies then existing. With the rapid multiplication of societies, the new generation of workers, many of them busy professional men, could not cope with the work and the expansion of the department was insufficient to keep pace with the growth of the movement. The result was the establishment of a large number of primary societies, which had never learnt the underlying principles of co-operation and were incapable of conducting their affairs in the democratic spirit, which those principles premise. Nevertheless some laudable attempts at reforms were made. To encourage the growth of owned capital in unlimited liability societies, the compulsory share system was introduced in 1915-16 and gradually extended until after 1920-21 it became a permanent feature of all societies with or without unlimited liability. To ensure both better supervision and greater security the idea of the guarantee unions was introduced from Burma in 1916-17. These associations of primary societies for mutual inspection and supervision were encouraged by all possible means by the Registrar, until in the year 1927 their number was 220. To ensure better audit, training and development and to serve as a co-ordinating agency for the movement, the Bihar and Orissa Co-operative Federation was registered in 1917-18. The need of whole-time trained managers was felt as the business of central banks grew. The bank staff was required to be licensed in future by the Registrar, acting as Governor of the Federation, and temporary classes were started in 1915 at Sabour to impart the

necessary training. In the same year the Maclagan Committee Report on Co-operation was published, and it served as a standard work for the guidance of the co-operative movement in this province as in other parts of India. In 1922 a small committee was appointed by the local Government to examine the financial aspect of the movement. It found it to be quite sound and fixed the standard of fluid resources to be maintained by each class of bank in the light of recommendations of the Maclagan Committee, with such modifications as the local conditions indicated. In the following year a larger committee under the chairmanship of Mr. Lyall, who had been a member of the Maclagan Committee, was appointed to consider the arrangements for the future control of the co-operative movement in this province, the adequacy of the audit system and the financial assistance required from Government. The most important recommendations dealt with the organization of the department.

18. *Changes in departmental organization.*—As mentioned above when the province came into being with 3,530 agricultural and non-agricultural societies and 8 central banks, the department was composed only of five persons—the Registrar (an I. C. S. officer), his personal assistant (an officer of the Provincial Executive Service), and three Government auditors on a pay of Rs. 100—10/1—150. As societies and banks increased, in 1913-14 the number of auditors was raised to five, of whom some were recruited from the Subordinate Executive Service and others were appointed to that service either immediately or subsequently. Each auditor was placed in charge of one of the five divisions of the province. As their time was mostly taken up with organization and the number of societies rapidly increased, their audit work fell into serious arrears. Any further increase of Sub-Deputy Collectors to serve as auditors would have made the cost prohibitive. It was, therefore, decided to make over the audit of primary societies to a much cheaper staff, specially recruited and paid for either partly or wholly by societies. Government agreed to appoint five local auditors in 1914-15 and one more for every additional 120 societies in future. This was the origin of local auditors. As the Registrar's work was correspondingly increased, his personal assistant was converted in 1915-16 into a Deputy Registrar with power to inspect societies. The Secretary of State in 1919 made the department permanent and sanctioned a strength of one Registrar, one Deputy Registrar and one Assistant Registrar, all recruited from the Indian Civil Service, and six Assistant Registrars recruited from the Provincial Executive Service, one for each division and one for the head-quarters to serve as Personal Assistant to the Registrar. For financial reasons the local Government were not at once able to work up to this strength. The Lyall Committee in 1923 considered a proposal of the then Registrar to appoint junior Assistant Registrars for each thousand societies to help the Assistant

Registrar in each division, but rejected it. It preferred to appoint more Assistant Registrars to provide for the rapid expansion of the movement on the ground that thereby the expense would be the same and the addition of another storey to the official structure would be avoided. It also recommended the appointment of a Deputy Registrar for the Orissa and Chota Nagpur Divisions, with some of the powers of the Registrar delegated to him, and the abolition of the post of his Personal Assistant. These recommendations were accepted by Government in their resolution, dated 25th September 1924. As a result of this decision the staff has been increased from time to time with the expansion of the movement, until at present it consists of one Registrar, one Deputy Registrar, nine Assistant Registrars and three Additional Assistant Registrars. The Registrar's post is on the Indian Civil Service cadre, and the Deputy Registrar is taken from among senior members of the Provincial Executive Civil Service. Of the Assistant Registrars two are Sub-Deputy Collectors, the rest being Deputy Collectors.

19. *Audit reorganization.*—The Lyall Committee considered also the question of changes in the audit organization. When the Federation was brought into being, the entire audit staff was transferred to its control, subject to the overriding authority of the Registrar in his capacity of Governor. The staff then included, in addition to the local auditors mentioned above, six divisional auditors, now called assistant auditors, who audited the central and other limited liability societies. Five of them were paid out of a special Government grant of Rs. 17,000 to the Federation. These were appointed in order to relieve the Assistant Registrars of the drudgery of audit of central societies and test audit of the local auditors' work, and to avoid an increase in their number. The cost of local auditors was met partly by Government and partly by the societies, except in the case of new societies and those in backward areas. Government, while unable to promise these subsidies for an indefinite period, stated that they had no intention of withdrawing them and that they would continue to be paid for the present without any definite renewal. They further agreed to give a new annual grant of Rs. 5,000 to the Federation for propaganda and development and to continue to entertain a staff of special officers for developing new areas where non-official assistance could not at first be expected. They also accepted the recommendation of the Lyall Committee that at least 10 per cent of the societies audited by the local auditors should be re-audited, 5 per cent by the Assistant Registrars and 5 per cent by the divisional auditors and that a Chief Auditor on a high pay be appointed to check all audit work and advise and assist the Registrar in the discharge of his audit and banking functions. The Committee defined the detailed duties of the Chief Auditor to be to " advise the Registrar on accountancy and banking matters, to hold classes for the probationers, to test audit central banks, limited liability

societies and stores, and also a small percentage of primary societies, and to suggest better methods of account-keeping suitable to the different kinds of societies." The first Chief Auditor, who still continues in service, was appointed in July 1925 on a salary of Rs. 400—25/2—600.

20. *Progress after* 1923 *and unexpected difficulties.*—The Lyall Committee had expected that at the then rate of progress, there would be 23,000 societies in the year 1933, an expectation, which, in view of the present number of 9,000, is very far from being realized. The reason for this failure of the movement to come up to expectations was that the evil effects of hasty organization and ill-considered finance began to be felt very soon after the Committee had reported. The hopes and enthusiasm of early co-operators came to be tempered by the reflection that, while the co-operative banks had supplied relatively cheap credit to the members, they had not taught them to use it well and wisely. Deposits flowed in, but collections fell off and overdues in spite of revision of *kists** mounted rapidly. Difficulties were experienced in enforcing awards, and liquidation proceedings dragged on over years. Disenchantment set in and a note of interrogation began to appear in the official annual reports. In the Government resolution reviewing the 1924 annual report anxiety was expressed for the first time regarding the fall in the percentage of recoveries to the demand and the deterioration in classification of societies. Another significant feature was the fall in the proportion of owned capital to total working capital, an indication that the movement was depending more on its power to attract outside money than its ability to encourage thrift among its members. One of the main underlying causes for this deterioration was undoubtedly the fall in agricultural prices from the high level of the years that immediately followed the conclusion of peace. Between 1920 and 1924, the money value of rural produce brought to market fell by something like 25 per cent, and where, as in some parts of the province, the harvests were below normal, it is not surprising that contracts to repay loans, taken for such purposes as satisfaction of outside debt, and redemption or purchase of land, on a basis of 5 years or less could not be met.

21. *Other contributory causes.*—Other causes contributing to the difficulties of the co-operative movement in these years, were the excessive accumulation of deposits in the provincial and central banks, the lack of co-ordination in the deposit rates of these financing institutions, the advance of large loans to individuals, much locking up of capital of central banks in stores and other speculative enterprises, some wasteful expenditure on "Development" and the uneconomical size of many of the newly started

* Dates fixed for instalments in repaying loans.

banks. All these had their effect on the dwindling profits of central banks to which the 1925 and 1926 annual reports referred. Many of these defects had their origin in ignorance of business and banking principles rather than in wilful mismanagement. But their effects for some central banks were nevertheless serious. For some time it had become the policy of the department to extend the scope of the movement beyond the supply of credit needs of agriculturists, and sale societies, consumers' stores and other limited liability societies which required large finance and expert business ability were started in many places. The central banks were persuaded to supply the finance, sometimes very reluctantly, but the managing ability and loyalty of members being still absent, these enterprises failed. Much of the present misfortunes of some central banks are entirely due to these failures. To obviate further failures of this kind, Government issued instructions to the Registrar in February 1926 that, except with his special permission, co-operative stores were not in future to borrow or seek deposits from non-members. It was further laid down that no more societies for the sale of ordinary country produce or the supply of necessities of life in rural areas should be registered at present. Orders were also passed to regulate the organization of societies for sale and supply of seed, manure and improved agricultural implements, as well as artisan societies. The Registrar tackled the other source of weakness of central banks rates by stopping their practice of accepting fresh deposits at high rates when the Provincial Bank was willing to lend the finance they needed at much lower rates. The policy was successfully carried out between 1927 and 1930. In fact a halt was called to expansion and more attention was given to consolidation and improvement, a policy which has generally been followed up to the present date.

22. *Training and development.*—As a result of the introspection induced by the failure of many of the early hopes of co-operators, much attention has naturally been devoted to the problems of improving existing societies by better supervision, and by training their members and officers, and of more intensive development of specially selected areas. In pursuance of this policy, permanent co-operative training institutes have been started at Sabour and Cuttack in the last two years for training the bank and Federation employees. Panch training classes have been held from time to time by banks with the help of the propaganda officers of the Federation. Ten such officers are now employed mainly for intensive development work in suitable areas. The Federation also has a publicity section which issues magazines, charts and slides to aid their activities. It supports five Divisional Federation Boards for the exchange of co-operative ideas in each division and its annual congress has become a powerful instrument for the

exchange and elucidation of co-operative ideas. A whole-time Secretary has been employed since 1929.

23. *Review of co-operation by the Provincial Banking Enquiry Committee.*—The Government of India carried out in 1929-30 an extensive banking enquiry throughout India and it became the duty of the Bihar and Orissa Provincial Banking Enquiry Committee to review the co-operative movement as one of the more important banking agencies existing in this province. As a result of extensive enquiries extending over six months, it came to the conclusion that " the co-operative movement in this province has made an appreciable inroad into the province of rural credit and viewed as a banking agency, is generally in a sound condition. Its defects are remediable and there is no reason why it should not occupy a very prominent position in this sphere before many years have passed." It also considered a number of other problems affecting the movement which had been already reviewed by the Royal Commission on Agriculture in 1928, and, amongst other recommendations, advocated the flotation of debentures by the Provincial Bank to provide long-term finance for the movement. The proposals of the Commission and the Committee have received the most careful consideration of the official and non-official co-operators of the province and have given rise to some important issues which we have considered in detail in subsequent chapters.

24. *Control over supervision and finance.*—Two of the most important of these are whether supervision and finance which are now combined in the same body, the Central Bank, should be separated in the interests of efficiency and, if so, by what agency and methods should supervision be controlled. The Registrar in his last annual report (1930) has raised this question in a pointed manner. Incidentally he has raised the further question whether in order to ensure better supervision and development the existing Government staff should not be reorganized and strengthened. The second outstanding question is what measures should be taken to ensure the progress of the movement on sound financial lines, in particular whether the societies and their members should be financed with long-term loans, and if so, on what terms and with what safeguards. If that question is answered in the negative, it has to be considered how the existing long-term commitments should be liquidated, and what agency should be employed for relieving the rural population of its heavy load of debt. Finally there is the further question of how the financial policy of financing banks should be controlled and co-ordinated so as to avoid repetition of past mistakes.

25. *The latest phase.*—As compared with some other provinces, the co-operative movement in this province has not made great headway as the following table taken from the Report of the Royal

Agricultural Commission will show :—

Province.	Number of members in all agricultural societies (1926-27).	Number of members in agricultural credit societies (1926-27).	Rural population (Census of 1921).	Number of rural families (estimated).	Proportion of members of agricultural societies to families in rural areas.	
					All societies.	Credit societies.
			(in 000's).	(in 000's).	Per cent.	Per cent.
Ajmer-Merwara.	10,185	9,879	330	66	15.4	15.0
Assam ..	42,478	42,478	7,428	1,486	2.9	2.9
Bengal ..	380,562	329,765	43,509	8,702	4.4	3.8
Bihar and Orissa.	205,825	205,000	32,627	6,525	3.2	3.1
Bombay ..	300,077	260,182	14,908	2,981	10.0	8.7
Burma ..	93,161	87,447	11,921	2,384	3.9	3.7
Central Provinces and Berar.	59,459	58,039	12,519	2,504	2.4	2.3
Coorg ..	11,223	11,223	155	31	36.2	36.2
Delhi ..	4,250	4,250	184	37	11.5	11.5
Madras ..	612,220	583,315	37,040	7,408	8.3	7.9
North-West Frontier Province.	681	681	1,915	383	0.2	0.2
Punjab ..	401,542	373,155	18,473	3,694	10.9	10.2
United Provinces.	148,405	148,332	40,570	8,114	1.8	1.8

According to the figures of the last annual report (1930) there are at present 9,150 agricultural and non-agricultural societies, 67 central banks, and 185 guarantee unions. The agricultural and non-agricultural societies have 254,462 members with a working capital of Rs. 2,79,00,616 and a reserve fund of Rs. 35,59,107. According to the 1921 Census there are 84,815 villages in the

province so that with the present figures there is one society for about nine villages. The slow progress of the movement since 1927 is seen from the following table :—

General progress from 1927—1930.

Year.	Number of agricultural and non-agricultural societies.	Number of central banks including provincial bank.	Number of guarantee unions including Bihar and Orissa Co-operative Federation.	Total.	Number of members of primary societies.	Loans made to individuals by primary societies.	Reserve of primary societies.	Working Capital of primary societies.	Profits of primary societies.
1	2	3	4	5	6	7	8	9	10
						Trs.	Trs.	Trs.	Trs.
1927	8,300	66	221	8,587	243,626	78,84	25,30	2,37,57	4,64
1928	8,905	68	215	9,188	255,337	83,44	29,96	2,71,30	5,44
1929	9,053	68	196	9,317	261,228	66,88	34,11	2,79,80	5,09
1930	9,150	68	186	9,404	254,462	54,92	35,59	2,79,00	5,44

26. *The present depression.*—The great economic depression, under which the whole world is suffering, has enormously complicated the problems just indicated. Prices have tumbled down in the last eighteen months by at least forty per cent. The members of our co-operative societies, who are mostly cultivators, have been hit very hard. Though their assets are still valuable, their repaying capacity has been, for the time being at least, seriously lowered. There is a melancholy consolation in the fact that this misfortune is not confined to this province but is shared by every part of India and indeed by the rest of the world. It is a tribute to the inherent strength of the movement that it has weathered the storm for the last eighteen months. If it survives the crisis, as we confidently believe it will, it will be all the better for it, for it will emerge purified out of the ordeal. Reformed and reorganized, it will pursue with renewed vigour its mission of conquering the poverty and helplessness of the Indian masses.

CHAPTER III.

Existing defects and future lines of advance.

27. *Co-operative spirit weak in the primary societies.*— According to the preamble of the Co-operative Societies Act, 1912, its object is the promotion of thrift and self-help among agriculturists, artisans and persons of limited means. It is obvious, therefore, that the whole fabric of co-operative institutions in areas, where this Act is in force, has been built up to stimulate these virtues among the members of the primary societies, of whom in this province the great majority are cultivators on a small scale. The success of the movement must be mainly judged by its ability to bring into being societies, composed of the people whom it is designed to benefit and really managed by those people. In this respect the movement has not, in our opinion, reached a level of attainment, which can satisfy its adherents or silence its critics. No doubt there are some model primary societies, which conduct their business in a true co-operative spirit. These and others carry on their affairs with prudence. But the great bulk of primary societies still depend far too much on the active assistance of the staff of the central banks, even to the extent of using that staff for the record of their accounts and proceedings. It is disheartening to find that in some areas in Orissa, where literacy is relatively common, half the societies cannot keep their own books, a proportion which is greatly exceeded in more backward areas. It is a general complaint of central banks that they cannot get back their loans without constant pressure from their own staff, nor are they willing to pass the requisitions of primary societies for fresh loans, except after laborious and often lengthy scrutiny by that staff and the directorate of the bank. Very few banks have as yet dared, even with their best societies, to give a trial to the system of " normal credit " which presupposes ability in the primary societies to assess the short-term credit requirements of its members and to distribute loans fairly among them.

Further indications of the failure to establish truly co-operative primary societies are to be found in the tendency among members to drop out of the movement, when they no longer require credit, and the tendency of old societies to lapse into stagnation.

We are convinced that the chief reason for this situation is not, as is often supposed, the prevalence of illiteracy among the

members of primary societies, though undoubtedly that is one of the contributing causes. The chief reason is, we believe, the failure hitherto to provide an adequate agency for instructing the primary societies in the principles and practice of co-operation.

28. *Need for instruction.*—Such instruction is, of course, essential when a new society is organized, and failure at that stage prejudices the future heavily. But it is equally essential to continue it until the advantages of co-operation are so clearly demonstrated, that the society becomes itself a centre of propaganda. During the last ten years primary agricultural societies have increased three-fold, and while the patient work of many honorary organizers and special officers in starting new societies must be acknowledged, there is no doubt that the pace was too great for really sound instruction by the number of persons engaged on the work.

29. *The failure of the inspecting clerk as an instructor.*—Once the societies are started, their instruction is left to the inspecting clerks of the central banks under the supervision of the banks' managers and certain members of the banks' directorates. These clerks tend to be mainly concerned with the purely credit side of the movement. They are required to supply the bank with information as to the assets of members, and to press for repayment of loans. They have little time to devote to instruction, and their preoccupation with the money matters of the banks and the societies renders their influence with the members suspect. Their complete subordination to the central banks, which with difficulty prevent themselves from becoming purely credit institutions, diminishes still further their utility as instructors in co-operative principles. We are convinced that it is unreasonable to expect the same primary agency to operate effectively in the credit and in the non-credit sphere. The remedies which we propose for this fundamental defect, set forth in the preceding paragraphs, will be found in Chapter XI.

30. *The financial objective of the movement.*—On the financial side of the movement, too, there are undoubtedly some signs of weakness. On this side the objective of the movement has been to supply to the individual members at reasonable rates the credit they require for the conduct of their business and the improvement of their material condition. This consists, for the agriculturist, firstly of the credit necessary for raising the crop, secondly of that needed mainly for replacement of live and dead stock, and thirdly of that required for freeing him from prior debt or for enlarging the scope of his operations by taking up more land. The first two are well within the scope of a properly organized primary society, especially one which is affiliated to a soundly managed central bank. The funds required for financing loans for these short and

medium terms can, as experience amply proves, be raised without difficulty at rates which compare not unfavourably with those paid by the State itself. Nor should such loans be so large, as to impose in normal circumstances a severe strain on the repaying capacity of the borrower or to require the hypothecation of an undue proportion of his capital assets. It is the third class of credit, which is the difficulty. It seems to us unfortunate that the movement in its early stages set before it as a practical policy the repayment of the *whole* of the prior debts of the members, and even more unfortunate that it contemplated such a rapid improvement in their economic position as to permit purchase with borrowed money of fresh rights in land.

31. *The implications of that objective.*—Before adopting this policy, its implications might have been more fully realized. That they were not is apparent even in the Maclagan Committee Report, which contemplates loans for repayment of debt as a normal feature of finance, while recognizing that the period of repayment could seldom exceed five years. Such a policy postulated that the difference between the rate of interest on the outside debt and that on the loan from the society was not less than 20 per cent. It may have been in the early stages of the movement, but it seldom is now-a-days. The policy of granting loans for purchase of land was an even more doubtful business proposition. If, as has ordinarily been the case, the rate of interest paid by the member to the society, was at least 12½ per cent, and the loan had to be repaid in five years, it is clear that the member was expected to earn a profit of Rs. 32½ each year on land which had cost him Rs. 100 to buy, i.e., that the land could be obtained at three years' purchase.

32. *The result on collections of ignoring its implications.*—It seems to us that the finance of the movement has been carried on in the past in general disregard of these considerations. Money has been easily obtained on deposit for terms seldom exceeding five years and often limited to one year, at rates of 8 per cent or lower by the central banks, and societies have been rapidly formed and loans readily granted, relying wholly on the capital assets of the members, without any regard to their repaying capacity. It is this kind of finance that is the main cause of the falling off in the standard of collection in the primary societies, which has been displayed in the last few years, following on the rapid expansion of the movement in the period 1915—25.

33. *The revision of* kists.—The ill effects of the policy were to some extent masked during the earlier years by the high prices of rural produce, which enabled the *kists* to be met with some degree of regularity. But by the beginning of 1927 the position had become so menacing as to induce the Registrar to issue a circular, of which the purpose was to get the banks to separate out long-term loans from short, and to limit the former to the amount of capital owned

by the banks and societies plus 25 per cent of deposits. Unfortunately the policy necessarily involved the extension of the *kists* of many of the existing loans for long-term purposes, which had up to then been ordinarily granted for no longer term than five years. The result was that many central banks took the instruction to mean an encouragement to go in for a wholesale relaxation of the terms on which outstanding loans should be repaid. Even that step did not result generally in a return to adequate collection on the new basis. The defaults continued and have been rendered still worse in the last year by the further heavy fall in prices, which has thrown finance into confusion throughout the world.

34. *The course of rural prices.*—It may be useful here to show, however roughly, the course of prices in the last 22 years for commodities, that are widely sold by the rural population of this province.

This can be best done by an index number taking 1928 as 100 and the result is as follows :—

Year.	Index number.	Year.	Index number.
1910 ...	**55**	1921 ...	**103**
1911 ...	**53**	1922 ...	**110**
1912 ...	**58**	1923 ...	**90**
1913 ...	**66**	1924 ...	**90**
1914 ...	**73**	1925 ...	**100**
1915 ...	**75**	1926 ...	**102**
1916 ...	**72**	1927 ...	**105**
1917 ...	**66**	1928 ...	**100**
1918 ...	**66**	1929 ...	**98**
1919 ...	**106**	1930 ...	**99**
1920 ...	**120**	1931 ...	**61**

The manner in which this index number has been prepared is explained in the Appendix at the end of this chapter. It represents with some degree of accuracy the relative value of the *production for sale* of the rural population of Bihar and Orissa taken as a whole, though no adjustment is made for the variation in the quantity produced, but only for the variation in the price. Naturally different parts of the province are differently affected by price changes for certain commodities. Thus in North-West Bihar changes in sugar or tobacco prices are very important, while changes in lac or jute prices have no importance whatever. Still in viewing the financial position of the co-operative movement as a whole these figures are of value. They bring out the very remarkable drop of about 40 per cent in 1931 as compared with a fairly steady level of prices for the previous six years. What this really means to the rural producer, who is a borrowing member of a co-operative society,

is that for every Rs. 60 that he took as a loan at any time during the previous six years he has been expected to pay back something like Rs. 100 in 1931. It is scarcely surprising that, bad as collections have been in the last few years in many areas, they are likely to be worse now.

35. *The reaction on the central banks.*—The tangle, into which the finances of primary societies have got owing firstly to the fixing of inadequate periods for repayment of loans for long-term purposes and secondly to the fall in prices, has its natural reactions on the central banks. Many of them are faced with the necessity of treating, either formally by a further revision of *kists*, or practically by inability to collect according to existing contracts, the greater part of their outstanding loans to rural credit societies as long-term loans. No doubt it would be possible to start on a very vigorous campaign of liquidation, but this would, we believe, be unfair to the members of primary societies and probably defeat its own aim of strengthening the position of the central banks. There remains the course of organizing land mortgage banks to relieve the central banks of some, at least, of their long-term commitments, a policy, with which we deal in Chapter VI. Many of the banks have, unfortunately, further frozen assets, if not actually bad debts, in the shape of loans made to special types of societies, notably stores, sale societies and large scale artisan societies.

36. *Favourable features of the finance of the movement.*—On the other hand, a considerable number of the central banks have wisely built up a substantial reserve fund, which can be trusted to carry them over the present depression, provided that caution in fresh commitments is observed. Another satisfactory feature of the financial position of the central banks is that they have, rather tardily no doubt in some cases, reduced the rates of interest they pay on deposits, and yet have retained sufficient deposits for their present needs. The usual rate for one year deposits is now only 6 per cent, and, generally speaking, there is little loss of confidence among depositors, and what there is can be counteracted without a substantial increase in interest rates. The main difficulty in the situation is that most central banks rely too largely on the Provincial Bank to carry the balance of long-term commitments, which is not fully covered by their owned capital, as well as to support them with fluid resource in time of need. Fortunately the Provincial Bank itself has been very prudently managed in the past and should be able to ride out the storm, which is blowing the world over, better than most financial institutions.

37. *The inadequacy of the official staff.*—The movement in this province still relies largely for guidance and inspiration on the official staff and is subject in certain respects to its control. It is difficult, in a province which even in prosperous times has an exiguous revenue, to provide a staff adequate for the responsibility which this position entails. What staff of Assistant Registrars has

been available is employed principally in inspecting and advising the central banks, and cannot devote nearly enough time to the primary societies. An undue proportion of their time has also been spent on starting non-agricultural societies of various types and attempting with small success to stave off their collapse. The Registrar, even since he has been assisted by one Deputy Registrar, has far more on his hands than he can adequately manage, since he has the direct charge, with few experienced officers to help him, of the whole of Bihar, where the expansion of the movement has been far greater than in the rest of the province.

38. *Relations between the official staff and the central banks.*—The position of the departmental staff *vis-a-vis* the central banks is not altogether a happy one. It is often difficult to draw the line between cases in which the responsibility of the department ends in the tender of advice, and those in which control is required. Further, in the latter class of cases, control is difficult to apply without extreme measures, which may have consequences far beyond those intended.

The reactions of individual central banks to official communications add a further complication. A few obviously resent and contrive to ignore criticism by the department, as they treat even the recommendations of the Co-operative Federation and the Provincial Bank, in the control of which central banks have a predominant share. More are inclined to take the opposite line of accepting as fiats what are intended to be mere suggestions (a mistake which more careful drafting of some of the circulars might have prevented), and then complaining that the action proposed has inconvenienced them.

39. *The position of the Federation.*—It was partly with a view to relieve the department of some part of its burden of responsibility and partly to prepare for a time when the movement could be safely allowed to govern itself, that the Co-operative Federation was founded. It consists of a Congress composed of a large body of delegates from central banks and primary societies, of a Council mainly elected by the Congress, and of a Governor, who is and has always been the Registrar, appointed *ex-officio*. The three main functions of the Federation are (1) the conduct of audit of affiliated societies of all kinds subject to the controlling authority of the Registrar as Governor, (2) the direction of the policy of development including the control of the training institutions and the special propaganda staff, (3) the eliciting and co-ordinating of non-official views about the movement generally. The last function is chiefly that of the Congress itself. The second is mainly that of the Council, though much of the detailed work falls on the Registrar-Governor with the assistance of the Federation Secretary. The first is ultimately the statutory responsibility of the Registrar, and in practice the work mainly devolves upon him, the Congress being concerned only in the passing of the budget for audit, and

the consequent decisions on the amount and the method of apportioning the audit levy. It may be claimed that the Federation has relieved the Registrar and incidentally Government of a portion of the burden and responsibility of administering the movement. It has certainly made a notable contribution to the education of public opinion in co-operative ideals. But we are doubtful whether the ends gained are fully commensurate with the expenditure incurred.

40. *Lack of training.*—There is yet one other defect which the Federation has been designed to remove and has made some progress in doing so, though much remains to be done. That is the serious lack of training both in co-operative principles and in technical knowledge, from which the great majority of workers, be they officers of Government, employees of the Federation and the central banks, or non-officials elected to manage the business of societies, generally suffer. We put forward our views on the way in which training should be imporved in Chapter XII.

41. *Scheme of the rest of the report.*—This completes a very brief exposition of the outstanding features of co-operation in Bihar and Orissa, as it stands at present. We now turn to a more detailed consideration of the problems and advance our proposals for meeting them. We begin by examining in detail the primary societies, rural and urban, for the benefit of whose members the whole structure exists. Next the financial side of the movement will be taken, since, however much its over-emphasis may be deplored, it is in present circumstances the most active sphere of co-operation and raises the most difficult and insistent problems. After dealing with it in a general way the position of the main institutions distributing finance at present, the central and provincial banks, will be examined, while the question of long-term finance will be considered in a section on land mortgage banks. The subject of audit follows immediately after, for on adequate audit more than on anything else depends the continued stability of the banks. We propose to deal with it along with the other functions of the Co-operative Federation such as development (to which for convenience sake we attach the subject of control) and training, and then with the Federation itself. It is next necessary to examine how co-operators, like the rest of mortal men, can be obliged to pay their dues, when they fail to pay them voluntarily; and it is convenient to follow this section, which must necessarily enter somewhat deep into the realm of law, with a section on other proposals for fresh legislation. We have left to a late stage the question of reorganizing the Department itself, since the answer to it depends on the general organization and future needs of the movement as a whole. Finally our recommendations have to be summarized and our acknowledgments made to those who have so greatly assisted our enquiry.

APPENDIX.

The Provincial Banking Enquiry Committee in paragraph 116 of their report have made an estimate of the value of commodities that are extensively sold by the rural population of Bihar and Orissa. That value is based on the prices of 1928. In the statement given below the prices of that year are taken as the standard. The relative importance of commodities is that shown in the Banking Enquiry's table as the value handled by the first buyer, except in the special case of sugar, where the figure for second sale is adopted. The figure for " other crops " is omitted altogether.

It is particularly to be noticed that the relative importance of the commodities is not based on production, but on value of saleable surplus.

Commodity.	Relative importance figure.	Annual value in lakhs of rupees.				
		1910.	1911.	1912.	1913.	1914.
Rice	20	8,80	8,80	10,40	12,60	13,40
Gram and pulses ..	15	5,70	5,10	6,05	7,35	8,55
Other food-grains ..	6	3,72	3,42	3,72	4,08	4,92
Oil seeds ..	8	4,40	4,80	6,32	5,76	6,00
Sugar	6	5,34	4,32	3,96	4,32	5,34
Jute	3	3,39	3,39	3,39	3,39	3,60
Tobacco	2	2,00	2,00	1,50	2,66	2,66
Lac	2½	1,00	1,02	98	1,15	1,00
Total ..	62½	34,35	32,85	36,32	41,31	45,47
Index number with 1928 as 100. ...		55	53	58	66	73

Commodity.	Relative importance figure.	Annual value in lakhs of rupees.				
		1915.	1916.	1917.	1918.	1919.
Rice	20	15,80	15,00	10,80	10,00	20,00
Gram and pulses ..	15	9,90	8,55	6,90	6,60	10,50
Other food-grains ..	6	5,52	4,50	4,50	4,92	8,10
Oil seeds ..	8	5,44	5,76	5,12	6,00	13,28
Sugar	6	4,80	6,00	5,34	6,00	6,00
Jute	3	2,25	2,61	3,39	3,21	3,60
Tobacco	2	2,66	1,50	2,66	2,00	2,00
Lac	2½	67	1,22	2,50	2,60	2,69
Total ..	62½	47,04	45,14	41,21	41,33	66,17
Index number with 1928 as 100.	...	**75**	**72**	**66**	**66**	**1,06**

Commodity.	Relative importance figure.	Annual value in lakhs of rupees.					
		1920.	1921.	1922.	1923.	1924.	1925.
Rice ..	20	25,00	18,00	17,40	15,80	16,00	16,00
Gram and pulses.	15	11,10	13,65	13,65	9,15	8,25	11,25
Other food-grains.	6	7,44	7,50	9,06	6,00	6,48	6,48
Oil seeds ..	8	8,80	7,20	8,80	7,76	8,80	9,92
Sugar ..	6	12,00	9,60	7,98	6,00	7,98	7,98
Jute ..	3	3,00	2,19	2,19	3,21	3,39	5,79
Tobacco ..	2	2,66	2,66	4,00	4,00	1,60	1,60
Lac ..	2½	4,85	3,60	5,88	4,38	3,90	3,60
Total ..	62½	74,85	64,40	68,96	56,30	56,40	62,62
Index number with 19 as 100.		**120**	**103**	**110**	**90**	**90**	**100**

Commodity.	Relative importance figure.	Annual value in lakhs of rupees.					
		1926.	1927.	1928.	1929.	1930.	1931.
Rice ..	20	18,80	20,00	20,00	19,20	17,40	9,80
Gram and pulses.	15	10,05	11,70	15,00	11,70	10,50	6,90
Other food grains.	6	7,50	7,50	6,00	5,64	7,50	3,96
Oil seeds ..	8	8,30	9,36	8,00	8,56	8,56	5,92
Sugar ..	6	7,98	7,98	6,00	7,98	9,96	6,60
Jute ..	3	7,59	5,19	3,00	3,60	4,41	2,81
Tobacco ..	2	2,00	2,00	2,00	2,00	2,00	1,12
Lac ..	2½	1,63	2,45	2,50	2,75	1,70	90
Total ..	62½	63,85	66,18	62,50	61,43	62,03	38,01
Index number with 1928 as 100.		**102**	**105**	**100**	**98**	**99**	**61**

The prices taken are as follows :—

Rice, Cheapest kind—Bhagalpur wholesale 1st January 1910—1930; adjusted Bhagalpur retail 1st January 1931.

Gram and pulses. Gram—Bhagalpur wholesale 1st May, 1910—1930; adjusted Bhagalpur retail 1st May 1931.

Other food-grains—Wheat Muzaffarpur wholesale 1st May, 1910—1930; adjusted Muzaffarpur retail 1st May 1931.

Oil seeds, Mustard—Bhagalpur wholesale 1st May 1910—1930; adjusted rape seed Calcutta 1st August 1931.

Sugar—Muzaffarpur wholesale 1st January 1910—1930; adjusted valley *gur* Calcutta 1st January 1931.

Jute—Bhagalpur wholesale 1st January 1910—1930; adjusted jute first Calcutta 1st January 1931.

Tobacoo—Muzaffarpur wholesale 1st May 1910—1930; adjusted poolah Calcutta 1st May 1931.

Lac—Calcutta, Shellac T. N. 1st May 1910—1931.

The prices for wholesale Bhagalpur and Muzaffarpur are those compiled by the Bihar and Orissa Board of Revenue. Unfortunately these were discontinued during 1930. For rice, gram and wheat retail prices are still published and have been taken for 1931 after the slight adjustments required. For other commodities (except lac) the Calcutta prices, supplied by the Director-General of Commercial Intelligence for 1929, 1930 and 1931 have been fitted on to the Bihar prices, since even retail prices of those commodities are no longer published by the Bihar and Orissa Board of Revenue. For lac the Calcutta prices have been taken for the whole period.

It will be observed that only one price quotation for each year has been taken, as time did not permit the averaging of prices throughout the year. The dates given should be read as " January 1st or nearest date of publication " in all cases.

PART II.

PRIMARY UNITS.

CHAPTER IV.

Rural Co-operative Societies.

42. *The extent to which the primary society is co-operative.*— We have already indicated that we view with a considerable degree of dismay the general failure to make the ordinary agricultural credit society a self-governing and truly co-operative institution. In the course of our enquiry we talked with the members of nearly a hundred such societies, and not a dozen of those showed much signs of approaching that standard. At the same time much of the material is good and, given adequate training at the start and wise guidance thereafter, there is nothing to prevent a much closer approximation to the co-operative ideal. In most societies that we saw the bulk of the members understood the obligations that they had undertaken and realized that the conduct of the society had been placed in their own hands. But practice falls much below theory, and far too many societies rely on the central banks' employees for the conduct of their business, while the central banks themselves seek to control that business over closely. Further the whole activity of the village society centres, as a rule, round credit, and very little is done to stimulate a general interest in co-operation in its wider meaning. That co-operation means a good deal more than a system of supplying credit on easier terms than those of the *mahajan* has been recognized from the very beginning of the movement. But from recognition of the fact to suitable action is a long step. The primary societies must, until they can build up their own funds, depend for their finance on the central banks. The central banks themselves depend largely on the depositors, who have entrusted their money to them, and thus there is a strong tendency to regard lending and borrowing as the paramount interest of co-operative institutions. We do not mean to imply for a moment that sound business methods are not of first class importance in co-operative finance as in ordinary banking. Nor do we fail to recognize that most central banks have made some effort, and several successful efforts, to develop the non-credit side of co-operation in the primary societies.

43. *The inspecting clerk's limitations.*—But the fact remains that, generally speaking, the staff of the banks that comes in contact with those societies, the inspecting clerk or " supervisor ", and the touring bank manager is mainly concerned with placing the bank's money safely and profitably and with getting in the interest and instalments of principal. A staff so employed is naturally handicapped in its further duty of instructing the members of the societies in rural reconstruction. They are seldom adequately trained for that purpose, while their role of collectors of dues and overdues fits ill with that of a benevolent guide in other matters. It is sometimes said that, when the inspecting clerk goes in at one end of the village, the society members go out at the other. This is, no doubt, an overstatement of the case. But there is more truth, we believe, in the description we have heard of a general meeting, attended by the bank officer, which begins with a lecture by him on the benefits of co-operation, listened to with respectful attention by the members. Thereafter it turns into an acrimonious discussion of the need for prompt payment of dues, and the complete inability, owing to the numerous insuperable difficulties, which are familiar to every collector of rural dues, to pay a pice.

44. *Other possible agencies for instructing the primary societies.*—No doubt in many central banks there are earnest and able directors, who spend much of their time in real co-operative development work in the villages. But such men are far too few for the work required, and many of the keenest of them have insufficient leisure. It may be asked why this work cannot be carried on, at least in part, by the official staff. Apart from the open question, whether it is for the ultimate good of the movement to rely in this matter principally on official aid, the departmental officers are in fact far too few to make any real impression. The audit staff—and that is not really official, being employed by the Federation—cannot be expected to do much more than examine thoroughly the book-keeping of the societies, and estimate accurately their financial position. There remains the staff of Assistant Registrars, who have on the average a charge of 800 societies and are expected, moreover, to pay close attention to the working of the central banks and institutions other than the agricultural credit societies. They have in this province no subordinate touring staff whatever.

45. *Efforts of the Federation to solve the problem.*—In the last few years the Co-operative Federation has seriously considered the problem, and has attempted to solve it in two ways. The first is by the establishment of training institutions at Sabour and at Cuttack, where persons employed in various capacities in the co-operative movement can be instructed not only in the technique of their profession but also in co-operative principles. The second is by the appointment of special propaganda officers, ten in number,

who are intended to train the members of societies. We reserve our comments on the training institutions for a later chapter, but may here express agreement with the general trend of the evidence that we received to the effect that the appointment of special propaganda officers has not seriously improved the position.

The remedy, which we propose for the neglect of the non-credit side of the movement in the village is the creation of a staff of development supervisors, who will have nothing to do with finance, and who will be ultimately controlled by a body other than the central bank, with whose affiliated societies they will be concerned. The scheme will be fully set out in Chapter XI on Development, where we will also discuss a scheme placed before us, which, in outline, has the blessing of the 1931 Federation Congress.

46. *Domination and its results.*—In the societies, whose working we examined we did not find very much sign of the loans being monopolized by a few members, who dominate the society. We usually found that the members with the highest assets took considerably less than their proportionate share of the loans. Still it is generally asserted that domination by a few members is common, whether that domination actually results in pecuniary advantage to the more substantial members or not. The opportunities we had of contact with the primary society members were insufficient to enable us to test that view thoroughly. But on the whole the readiness of the ordinary members to allow one or two to monopolize the conversation tends to confirm it. Mr. Wolff as long ago as 1919 deplored the absence of any kind of " Vigilance Committee " separate from and watchful of the panchayat. In the small societies now prevalent there is perhaps hardly room for it, but it might be a useful feature of " whole village " societies.

47. *Larger societies.*—Elsewhere we think that some advance might be made by trying to enlarge the existing societies, though we recognize and indeed emphasize that the admission of new members, or the amalgamation of the two or even three societies, that are to be found in the larger villages, are questions which pre-eminently pertain to the society or societies concerned. So far from finding members increasing, we generally found that old members tried to drop out, when they had gained the more obvious advantages of membership by satisfying their outside creditors and paying up their loans from the society. It appears that about 1920 the average size of society (all kinds) which had previously been some forty to fifty members dropped to about thirty and has remained near that figure ever since. Indeed the average membership of the ordinary agricultural society is now less than 24. Though perhaps no great economy could be obtained by having larger societies, we think they would tend to less domination of a few individuals, and to more healthy criticism of the panchayat. We

are afraid that some of the existing societies owe their origin to the astuteness of one or two persons, who found themselves in difficulties and were influential enough to bring in the additional members needed for registration.

48. *Other defects in organization.*—Another defect of organization, which was apparent in some areas we visited, is the starting of a number of societies in places where success is very doubtful. In particular we found groups of societies, whose assets were lands of a precarious character situated in the Ganges diara. If the loans granted had been small, and such as could be repaid on a single good harvest, little harm would have been done. But any one with experience of diara areas knows that bumper harvests alternate with almost complete loss of crops, while there is a great risk of the land being thrown out of cultivation for many years by a shift of the river.

We doubt too whether it is sound to spread co-operative societies widely in areas, where owing to the prevalence of the produce rent system or other causes, there is grave friction between landlord and tenant. There is a good deal to be said for the idea of helping deserving tenants to stand up against manifest oppression, but the danger of risking a large proportion of the central bank's money on the doubtful issue of a long-drawn fight with a powerful landlord cannot be ignored.

Again the introduction of the credit activities of co-operation among aboriginals requires much more careful survey of the ground than it has received in the past. Such people are not accustomed to the use of substantial credit and certainly not awake to the danger of long-term credit. Even for short-term credit the demand is not, we believe, very acute, since for petty sums friendly loans among themselves are general. Apart from the ignorance of the use of credit, there is the additional difficulty that lands in the aboriginal districts are not at present saleable, and thus co-operation may tend to be not only bad philanthropy but bad business too. We strongly advise that co-operative problems in such areas should be treated as distinct from their counterparts in more advanced districts. We notice with some apprehension that one of the declared objects of the Federation is to secure *uniformity* among all co-operators of the province though we believe that the uniformity, to which we take objection, was not intended by the drafters of the by-laws of that body.

49. *Inaccessible groups of societies.*—We also deprecate at present attempts to start new societies in untouched areas, merely on the ground that they have not yet been touched. It is absolutely imperative that the question, whether adequate supervision can be arranged in view of the existing means of communication, should be fully examined before such societies

are brought into being. There are already several glaring instances of neglect of this precaution. The better course is to spread out from centres, where co-operation has already shown signs of healthy growth.

50. *Responsibility for defects.*—For all these defects the responsibility lies quite as much on the Registrar who has given the societies his official blessing as on the central bank whose zealous members have started their organization. We trust that both parties will take warning from the results of past mistakes.

51. *Financial position of societies.*—We found that in the majority of the societies the " haisiyats " showed ample cover for the outstanding loans, even when the value of land is written down to provide for the fall, which the depression of prices has brought about. But, while the assets are there, they are not at present a source of sufficient income to meet the demands for interest and principal repayment, and it seems unlikely that they will be as long as prices remain at the existing level.

52. *An enquiry into repaying capacity.*—A few weeks before our enquiry opened, the central banks were asked, at Mr. Batheja's instance, to ascertain in some societies the income and expenditure of their members in order to judge of their repaying capacity. The time allowed was short, and no doubt in some cases the survey was perfunctory. We have, however, satisfied ourselves that it was not so everywhere. The results are certainly disquieting. Even before the catastrophic fall in prices that began about November 1930, the proportion of members, covered by the survey, whose family budgets showed a deficit, was 57 per cent and for the last year the percentage is shown as high as 71.

53. *Probable errors in the estimate.*—But from the individual cases we were able to examine, it was clear that the produce of the land was under-estimated. Random sampling of winter rice crops was conducted on the rice harvests of 1928-29, 1929-30 and 1930-31 in practically all districts of the province. No less than 23,505 samples were taken and these give a mean of almost exactly 19 maunds of paddy per acre of actually harvested area. The accuracy of the method is such that it is something like 8,000 to 1 against this figure for the mean being more than one-fifth of a maund out. Of course inaccuracy may come in by cutting the samples when the heaviest yielding rice is being harvested or neglecting to sample in areas where crops are generally below the average. But seeing that the sampling has been carried out by a large number of persons working independently, it is extremely unlikely that such causes have produced any serious error in the result for the province as a whole. An allowance of about 5 per cent might be made before applying the figure to the surveyed area, which includes field boundaries. A further allowance of the same amount

may be made for the difference between the area planted or sown with rice and that on which the crop is worth harvesting. After making these allowances it is safe to say that the average yield of winter paddy per acre in these three years has not been less than 17 maunds. (By winter paddy we mean the crop harvested between the 1st November and the 15th January, and this covers a very large proportion of the entire rice crop in the province). Consequently when we find that family budgets show a yield of seldom more than 12 maunds an acre and frequently as little as 9 maunds, it is impossible to avoid the conclusion that the value of agricultural produce has been generally under-estimated. We cannot believe that co-operative holdings habitually yield less than others, any more than we can believe, however often we may be told the story, that a specially unfavourable monsoon is reserved for villages where co-operation has taken root. The cost of labour, taking into account the fact that the member's own family does most of the work on the holding was placed too high, though some attempt seems to have been made to show the value of the family labour as an item of receipt. It is probable, too, that the members, on whose statements the budgets were ultimately based, had a general tendency to under-estimate their position to avoid pressure to pay arrears, especially at this time. But even discounting the figures in these ways, it is scarcely possible to avoid the conclusion that a considerable number of society members are at present unable to meet their expenses including the payment of interest and principal to their societies.

54. *Survey of repaying capacity to continue, and its results to be the basis of loan policy.*—We completely agree with the view that this survey of repaying capacity should be pressed on, and that loan policy should in the future be put on this basis. We recognize the difficulties in both recommendations. The survey must rest on the statements of the members, who are likely to show a deficit when they are being pressed for repayment and a credit balance when they are urgently in need of a loan. The agency for checking and correcting the statements is the inspecting clerk, under the guidance of the bank's touring manager and neither of these are, at present, though we trust that they will soon become, adequately trained in rural economics. A loan policy based on repaying capacity will, for the immediate future at any rate, mean an extension of *kists* and perhaps a reduction in interest rates. Neither of these courses will be convenient to the central banks, and both involve a serious risk of encouraging the idea that slackness in repayment of dues is likely to lead to some easing of their burden.

55. *The danger of wholesale liquidation.*—But the only alternative is severe pressure on individual members at a time, when it is clear that both income and assets have fallen markedly in value, and the result of such pressure would be wholesale liquidation

of societies, involving the good with the bad. The reactions, both economic and political, of such a course would be very serious indeed. At the same time it should be the duty both of primary societies and of the central banks to distinguish wilful default from real inability to pay at present, and to press for payment where it is possible. We would not be averse from pressing for sale of portions of holdings, where such sale is permissible and calculated to improve the member's economic position.

56. *Need for increasing repaying capacity.*—It is obviously necessary to do all that can be done to increase repaying capacity, particularly by introducing proved advances in agricultural practice. It was cheering to find that in most areas we visited something had already been done in this direction, though there are evidently many problems of adapting improvements to local conditions to be solved, such as the protection of cane-cuttings against white-ants and of groundnuts against jackals.

57. *Future loan policy.*—For the immediate future the policy of attempting to free each and every member of a co-operative society from outside debt must be definitely abandoned, unless its fulfilment can be transferred to a separate organization. The pursuit of that policy in the past has loaded the movement with a large burden of long-term commitment, which its resources of long-term finance can with difficulty support. In existing societies loans should be almost entirely restricted to short and medium term needs, i.e., short-term loans for the raising of the crop, payment of rent, petty trade, maintenance of the family in bad seasons and house repairs, and medium term loans for replacement of cattle and implements, and for closely restricted expenditure on social occasions. Where new societies are founded (and we indicate elsewhere that at present such expansion should proceed cautiously) it will probably be necessary to grant a limited amount of long-term loans to clear off small debts on very onerous terms. But here, too, no attempt should be made to redeem mortgaged lands, until the members have made a notable advance in co-operation. In no circumstances, should money be advanced for purchasing fresh land. If prices rise, and the experience of the next few years in the matter of lessening the amount of long-term credit granted in the movement is happy, the policy of rescuing the members from their outside debt might be resumed either through separately organized land mortgage banks or, failing their establishment, with the existing organization.

58. *Apparent neglect of short-term business.*—In the matter of short-term loans, we were struck by the lack of adequate arrangements to take up the business of lending grain for the last few months before the harvest, in areas, such as a great part of Orissa and Chota Nagpur, where that business is widely carried

on by money-lenders at a profit of 25 or even 50 per cent for a term of three or four months. In some places the best arrangement would probably be village grain banks strictly limited to members' deposits, but in others where trade is active ordinary money loans would serve the purpose.

59. *The maintenance and use of the " haisiyat " registers.*— While we hope to see introduced gradually a more rational scheme of financing based on repaying capacity, we recognize that the ultimate security of loans lies, in the vast majority of cases, in the landed property of the members. For this reason it is still necessary to maintain and improve the " haisiyat " registers, which should be revised yearly. It is hardly necessary to carry out the numerous corrections, which an attempt to revalue land on the basis of its current selling price would involve. But it would be desirable to note somewhere in the register, on what year's figure the land has been valued, and what adjustment should be made for rise or fall in selling price in subsequent years. We believe that a sufficiently accurate figure could be obtained from the Registration Department for each district. We think that cattle, but not other movables, should be included in the " haisiyat ", to enable the panchayat to know what assets can, if need arises, be attached, but that the value of the cattle should not be taken into account when granting a loan, save where the member is definitely a trader in cattle. We find that in some societies loans have been granted up to a limit of one-third of the value of " haisiyat " assets. We think this is unsafe, and would fix no higher maximum than one-fifth, even where repaying capacity indicates a possibly higher limit.

60. *Fixing of the maximum borrowing limits.*—Such a rule could be enforced with reasonable certainty, if the maximum borrowing limit for the society as a whole has to be approved by the financing central bank. We would make this approval a statutory requirement and would add that the central bank should consult the department, and in case of difference of opinion the lower figure should be adopted. It would merely be necessary for the central bank to send to the Registrar or his subordinate a statement showing the maximum borrowing limits which it proposed to approve for each society. We expect that differences of opinion would be rare. It is obviously necessary for the primary society to fix at its general meeting the maximum loan to be given during the year to each of its members. Should that maximum be exceeded, we agree with the Central Banking Enquiry Committee that the panches of the society should become automatically guarantors for the excess portion of the loan. The more astute panches might try to get over this by inducing the general meeting to agree to maxima in excess of requirements. But any marked rise in the total would, we think, induce suspicion and invite enquiry.

61. *A wider use of the " normal credit " system.*—In order to obviate delays in granting loans for short terms, we strongly support the system known as " normal credit ", by which a definite sum is fixed for each member as drawable without further question, when required by him. The sum total of the " normal credits " of the members is the " normal credit " of the society, and this amount or some considerable proportion of it should be readily available to it from the central bank, especially where the society has funds on deposit there. The central bank will, no doubt, have to examine carefully at the beginning the amount of " normal credit " that should be made available to the society, but once it has satisfied itself that it is not excessive, it should be prepared to accept requisitions from the society within that limit at any time throughout the year without further scrutiny. This arrangement should be made with all societies classed in the previous year as A or B, and probably some of the better C class societies might also have it. We consider that central banks have hitherto been too timid in trying the arrangement. Such loans might be sanctioned by the working committee of the central bank, or even by a single member of the directorate, so empowered. Applications for them might be drawn up in a special form of a different colour from that used for applications for loans that require more thorough scrutiny. It must be understood that we expect that for some time to come the central banks and the primary agricultural credit societies will practically limit their new business to short-term loans along with a certain amount of loans for medium terms. Indeed, if land mortgage banks come into existence, the existing banks and societies should aim at having no long-term loans on their books. We are contemplating here " normal credit " for short-term loans only, and advise that applications even for medium-term loans should still be closely scrutinized. " Normal credit " is, of course, entirely out of the question for long-term loans. We also wish to impress on the central banks that it is an important part of their duty as co-operative institutions to instruct the primary society members in the sound use of the " normal credit " system.

62. *Recovery of dues.*—At the present moment most primary societies are experiencing difficulties in getting their own dues, and consequently in paying the dues of the central banks. We have, therefore, been obliged to consider whether greater facilities for collection, as well as greater precautions before loans are granted, are required. A recent ruling of the Patna High Court has decided that it is not open to a central bank to apply for an award under the Co-operative Societies Act against individual members of primary societies. This, if we may say so, is not only good law, but also in normal cases good co-operative principle. Clearly a primary society that is really co-operative will take action of its own accord against members who wilfully default. But unfortunately a considerable number of existing societies are not at such a

high level of co-operation. What the remedy should be is discussed in Chapter XIV.

It has further been suggested that the panchayats of primary societies should be given power to apply for distraint on the standing crops of members who are in arrears, and that the central bank should have the same power, and use it when the panchayat is reluctant to do so. We note that the first part of the suggestion was considered at the 1931 meeting of the Federation Congress and was rejected by a large majority apparently on the ground that the panchayat members were frequently heavy defaulters themselves and so could not be trusted to use the power fairly. The Federation Congress of 1932 has differed from its predecessor, and we have, therefore, examined the question again and express our views in Chapter XIV.

This leads on to another question, viz., whether it is desirable to provide that awards granted by the Registrar should be capable of being executed as certificates in the revenue courts, instead of, or as an alternative to, execution in the civil courts. We give our views on this point also in Chapter XIV.

63. *Security for loans.*—The other question is that of strengthening the security on which primary societies lend to their members. As it is, for all considerable loans, i.e., of Rs. 200 or even in some areas Rs. 100, collateral security in the shape of a mortgage is taken. Though this is a distinct departure from the theory of co-operation, which relies on personal character rather than pledged assets, the type of business hitherto conducted by primary societies affords justification for some such precaution.

The most useful form which such collateral security can take is a document, of which the substance is as follows :—

" I shall transact business up to Rs. during the period of my membership of the society. In security I place the lands noted below in mortgage to that society."

This is a running mortgage, known as a " satta chitha ", and the period of limitation only comes to an end after three years from the last transaction under it. Rai Bahadur Shyamnandan Sahay and Rai Sahib Mihir Nath Roy, who consider that unfortunately very little reliance can be placed on the security of the personal character of the primary society members, would take such a mortgage for every loan except short-term loans of less than Rs. 100. The rest of us think that a mortgage should be unnecessary for either short or medium-term loans, and would rely for repayment of these on co-operative spirit among the members and on their unlimited liability, and consequently if long-term business is transferred to land mortgage banks, the need for these mortgages in primary societies will cease.

64. *Transferability of holdings.*—Whatever may be the arrangements for getting borrowing members to pledge their lands for loans, it must be remembered that the existing law admits of no very easy way of enforcing the liability in the last event. In Bihar, under the Bengal Tenancy Act, the power to transfer the occupancy right of a raiyat by sale depends on custom, which is still very ill-defined. The superior landlord has, as a rule, the power to decline to recognize the purchaser on a money decree, and to exact a substantial fee for accepting him. In the Orissa coast districts, where the Orissa Tenancy Act prevails, private sale is generally recognized subject to a payment of one-fourth of the purchase money to the landlord, who also has the right to object to the purchaser on certain grounds. But it is an open question to what extent the landlord can intervene in a court sale, while the general question of sale is still left to custom in the permanently-settled estates, which comprise a fairly large part of those districts. In Chota Nagpur, the Santal Parganas, Angul and Sambalpur, the right to transfer occupancy holdings is still closely restricted and consequently in those areas pledging of the member's land does not mean more than, at best, a usufructuary mortgage for a limited term of years.

There is a strong demand from a large body of co-operators, who are able to make their views heard, for a relaxation of the laws, which hinder free transfer of occupancy rights, a demand which has become more insistent with the growing difficulty of recovering dues. It is argued in particular that these restrictions diminish the credit of the member, and consequently raise the rate of interest that he has to pay for his loans.

65. *The Committee's views on the question.*—We all recognize the force of this argument and are prepared to support all possible relaxation in the areas, where the members are sufficiently advanced to realize the danger of easy credit, as we think they are in Bihar and in the Orissa coast districts. In Sambalpur, we agree to the same course, unless local officers and others, who have had close experience of that unique district, have cogent reasons for opposing it. The President is, however, very doubtful of the wisdom of relaxation, at present, in the remaining districts, which have a large aboriginal population, to whom easy credit is still a great danger. He believes that aboriginal opinion is wholly averse from the change, and that it would tend to a continuance and an extension of reckless finance by the central banks, which are there even less controlled by the ordinary rural element than they are in more advanced areas. In general he thinks that no case has been made out for special treatment in this respect, for debts due to co-operative institutions, and that it would be extremely difficult to resist a demand for the relaxation to be extended to all classes of debt. He would press strongly for

adequate safeguards in the aboriginal villages against the expropriation of their inhabitants through the medium of co-operation, and their replacement by non-aboriginals. He fears that any serious threat of that contingency would create a great deal of unrest among the aborigines. He thinks that, in any case, the results of the revision settlement in Ranchi, now in progress, should be taken into very careful consideration before any decision is reached. Khan Bahadur Saghirul Haq and Mr. Batheja are inclined to agree with the President's views. The other two members after a careful examination of the evidence placed before the Committee including the opinions of many eminent and veteran co-operators are satisfied that a considerable degree of relaxation is desirable in these areas too. They think that to give to central banks the right to bring the lands of defaulters to sale would secure a very welcome reduction in the rate of interest. It is unlikely to be abused by the central banks, who both from a regard to co-operative principles and a reluctance to burden themselves with landed property would seldom take the extreme step of selling up their clients. In fact the dishonest members, who at present borrow recklessly, trusting in the immunity of their land from sale, are the only ones who would have anything to fear. Maintaining the present restrictions puts a premium on dishonesty. They point out that when the Chota Nagpur Tenancy Act was passed, co-operation was still in the experimental stage, and consequently could not be put forward as a remedy for the evil results of uncontrolled borrowing. Though they are not at present convinced of their necessity, they would be prepared to admit safeguards, providing that proof should be demanded that the original debt was for redemption of holdings, payment of rent, purchase of cattle or general cultivation purposes, and that the sanction of the Registrar or the Deputy Commissioner of the district should be necessary before the land was put up to sale.

Before leaving the general question of transferability it is necessary to note that, whatever alterations in the law may be made, the existing rights of landlords will have to be taken into account, and a fair settlement reached of the vexed questions of the scale of *salami*, and the grounds of objection to the transfer or in the alternative the proposed new right of pre-emption.

66. *Emphasis on recovery difficulties an admission of failure.*—In considering this and other questions of strengthening the machinery for recovery of dues, it is imperative to emphasize the fact that co-operation was not introduced into India to establish a safe investment for the savings of the middle class, but to break down the stagnation of the rural population. It would be an outstanding example of irony, if the result of thirty years' application of the principle were the ruin of a large proportion of cultivators, who have been induced to trust to it. Nor is it

a healthy sign in the co-operative movement, which presupposes a large element of self-determination in the primary societies, that there should be so much discussion of the most effective methods of *compelling* these societies to conduct prudently their own business. If co-operation is in this province to have the future which its well-wishers hope for it, the right of the primary society to manage its own affairs must be strictly preserved, and its ability to do so must be wisely developed.

67. *Societies for the sale of members' crops.*—Hitherto in this chapter we have been dealing with the most common form of rural primary society, the agricultural credit society with unlimited liability. Though other kinds of society are relatively insignificant it is necessary for the sake of completeness to discuss them briefly. The experience of them in this province has not been happy. A few sale societies have been founded, with a view to holding the produce of members for a favourable time of marketing. These have all failed and been liquidated and have resulted in serious loss to the financing agency. We see no prospect for their success, until a very pronounced advance in business education and co-operative spirit is visible, especially as there is reason to believe that the profits made by the middlemen are not nearly so large as his detractors imagine. The question of co-operative marketing in this province was very carefully examined by the Provincial Banking Enquiry Committee, who expressed themselves strongly against further experiments at present, a view with which we are in complete accord. The only exception we would make, and here again we follow that Committee, is the encouragement of co-operative warehouses, as part of a general scheme to improve the facilities for granting sound credit during the period of marketing.

68. *Dairy societies.*—There is one example in this province of a society formed to sell for its members a special product, which has its own problems of marketing. This is the dairy society at the large town of Bhagalpur. It commands a convenient and extensive market and has proved a distinct success. We think it might have imitators elsewhere, provided the same conditions exist, and possibly the sale of other products of a perishable character might be organized on a co-operative basis with success.

69. *Societies for the sale of agricultural requirements to members.*—Three other societies, which aim at retailing to their members articles required for agricultural practice, such as implements and manures, are in existence, but they are at present working at a loss. This activity is decidedly less risky than the organization of sale of produce. We advise that the causes of failure should be carefully examined, and further attempts made to develop them on sound lines. It is probable that groups of whole-village societies, when these are securely founded, will be prepared to take up this activity as one of many outlets for co-operative energy.

70. *Other special societies.*—Apart from grain golas, which we discuss below, the only other special types of rural societies tried in the province are rent-paying and irrigation societies. Three rent-paying societies have been organized and liquidated, and there are evidently some factors, which militate against the success of societies of this kind. In one area, Fatwa, three irrigation societies have met with some degree of success, which they owe mainly to the zeal of a single enthusiatic co-operator, Rai Sahib Raj Prakash Narain. We think that this form of co-operative development is well worth a trial in other suitable parts of the province.

71. *Societies for the consolidation of holdings.*—No attempt has yet been made to follow the example of other provinces in starting societies to solve the problem of the fragmentation of holdings. That problem is no less pressing in Bihar and Orissa than it is in other parts of India, and we therefore advise that a start should be made. The idea will probably take root most readily in places, where the foundation of whole-village societies is successful.

72. *Grain golas.*—Grain golas appear to be a distinct success in aboriginal tracts, particularly in Angul and the Santal Parganas, and we regret that we were unable to make an adequate study of them in the course of our enquiry. Our impression, however, is that they depend for their success partly on active assistance from the Revenue Officers, who, in these areas at least, are more able to overcome the reluctance of borrowers to repay their dues than the panchayats of societies or the directorates of banks. Prompt realization is also easier, because the loans are almost entirely for short-term purposes. Even where active assistance from Revenue Officers is not available, we see no good reason why grain golas should not succeed, given good supervision at the beginning, in the parts of the province where grain-lending is still prevalent. But it should be strictly enjoined that, except for a small loan to start the society, it should rely for its capital on local deposits of grain, which should be forthcoming in years of good harvests.

73. *Guarantee unions.*—One other class of rural society remains, the guarantee union. This type was copied from Burma as long ago as 1916, and early reports of its progress were glowing. By 1927 as many as 220 such societies had been established and embraced 1,985 primary societies. The union was intended both to stand as an additional surety for the loans made by the central bank to the primary societies, and to supervise the working of those societies. As late as 1928 the Registrar, while admitting that the majority of them were unsuccessful, considered that with better trained workers they would still prove their merit. In 1929 it was clear that they had generally failed and registration of new unions was stopped until a committee like our own should bless them. In the meantime, the present Registrar had the Burma

Report before him. There it had been found that the supposed guarantee was illusory and the failure of the unions had been largely responsible for the break-down of the whole movement. In the light of this failure in the province from which the idea was borrowed, the Registrar conducted his own enquiry and found that " with few exceptions these unions have failed to achieve any of the objects for which they were started and are merely parasitic upon the primary societies, which are required to contribute to their upkeep ". We agree with this conclusion, referring as it does to unions, which are intended to perform a financial function, though there is no objection to their continuance, where the constituent societies really desire to retain them. We think that there is a possibility of organizing purely supervisory unions such as exist in Bombay and Madras, and that such a development should be kept in view, though better supervision is too urgent a need for reliance at present on unions, which cannot be expected to come into being immediately.

CHAPTER V.

Urban and other non-agricultural societies.

74. *Scope of the chapter.*—In this chapter we propose to deal with all kinds of co-operative societies, except such as have been devised for agriculturists, which have been discussed in the preceding chapter, and except the higher financing societies (the central banks and unions and the Provincial Bank) and the society for general control of the movement (the Federation), whose activities we examine later. It is difficult to generalize about the societies here under review, but it may be said broadly that they deal with a special class of the population, who, as a rule, lack the landed security, the close contact and the fellow-feeling, which give or should give stability to the unlimited liability agricultural society. They therefore raise problems of their own which require separate treatment.

75. *Slow growth of urban co-operation.*—In 1930 there were in the province only 333 non-agricultural societies with 26,908 members and a paid-up share capital of about Rs. 10,39, reserve fund of Rs. 3,35 and a total working capital of Rs. 37,53. Including, as these figures do, the figures for many non-agricultural rural societies, it will be seen that co-operation in this province has not made much headway in the urban areas. The reasons for this are many. Co-operation in India was primarily started to remove agricultural indebtedness and that is still its most important aim. Though the urban population is also heavily indebted, as the Bihar and Orissa Banking Enquiry Committee reported, the absence of landed security diminishes the safety of credit. There are, moreover, not many large industrial concentrations, where clients of "limited means" whose needs the Act contemplates, can be found in sufficient numbers to make organization easy. The poor population of the towns consists mostly of artisans and persons following menial occupations. To the more prosperous of the middle classes, co-operation makes no appeal. There is scope, however, for co-operation amongst the poorer middle classes as they contain an element of stability of character and occupation on which a structure of co-operation can rest. It is not surprising, then, that the more successful societies in towns are those organized for the clerks of public offices and the employees of large industrial establishments.

76. *Some statistics of non-agricultural co-operation.*—Of the 333 non-agricultural societies, whose working is set out in Statement C of the annual report of 1930, as many as 131 were credit societies with 18,541 members and about Rs. 30½ lakhs of working capital. The following table shows the relative importance of the objects of these non-agricultural societies :—

Class.	Number.	Members.	Working capital in thousands of rupees.
I. Credit	131	18,541	30,56
II. Purchase, or purchase and sale ..	26	2,566	1,89
III. Production	7	104	1
IV. Production and sale	100	2,911	3,79
VI. Other forms	69	2,786	1,26
Total ..	333	26,908	37,52

From the body of the Registrar's Annual Report of 1930 it appears that there were 80 *amla* and wage-earners' societies with 17,349 members, 8 provincial associations, 58 fishermen's societies, 2 home industries' associations, 1 housing society, 6 traders' banks, 1 co-operative press, 6 public health societies and 23 societies for depressed classes, besides a few stores and a number of small societies for artisans such as weavers, bell-metal workers, oilmen and tailors.

77. *Their decaying condition.*—Most of these societies, except the *amla* societies and a few traders' banks, are in a decadent condition and are dying a slow and lingering death, the department not having the heart to kill them. They are the cherished children of the efforts of official and non-official workers, who wanted to remove the reproach on the fair name of the movement of being confined exclusively to agricultural credit. They were started with more zeal than discretion during the period between 1914 and 1924. They have failed because of the inherent difficulties of these forms of co-operation, the absence of business knowledge amongst the workers, and the dishonesty and incompetence of their employees. Their failure has sobered, but not entirely extinguished, the ardour for these types of societies. It has been urged that failures are inevitable, and after all co-operation like every other great movement buys its experience. As Mr. Strickland writes; " The conditions of no two trades or countries are altogether similar, and

experience which must be bought is always costly; the battle is won only by persistent effort, and the corpses must be buried with decency and without despair ".

78. *Present and future policy.*—We sympathize with this view. But, while we deprecate a standstill policy which will lead to complete stagnation, we advise very great caution in starting these types of societies, and agree with the present policy of the department of taking, at the moment, no risks in experimenting with new forms of co-operation. This is proper when the movement is passing through a period of great stress due both to outside and inside factors. But when this phase is over and the painful lessons of the past have been fully learnt, we trust the movement will resume, however cautiously, its forward advance in these directions also.

79. *Detailed working of different classes of non-agricultural societies. Amla and other employees' societies.*—After these preliminary observations, we proceed to consider the present position and future prospects of the different classes of non-agricultural societies. Since most of them are really credit societies and even those with professedly non-credit aims have credit functions, the credit side will naturally receive the greatest attention. The *amla* societies comprising the clerks of Government offices, and the " Tisco " societies whose members are drawn from the different branches of the Tata Iron and Steel Company's Works at Jamshedpur are the only examples of co-operation for employees of large concerns. These have manifest advantages. The members are in receipt of a regular salary, and their provident funds and their anxiety to retain their posts act as a good security against advances. The arrangement of deducting their *kists* from their salaries makes default almost impossible, while the fact that members are generally educated, hold fairly responsible posts and are supervised by their official superiors, ensures a sufficient supply of managing ability. The only risks of failure against which these societies have to guard are lax supervision on the part of the managing committee or positive dishonesty on the part of their servants. Given due vigilance, there is no reason why an *amla* society or an employee's society of this type should ever fail. There is, however, a danger of these societies becoming in course of time unco-operative in character. In the absence of general banking facilities and as a result of the high rates for deposits offered by these societies, they have generally more deposits than they can easily invest. There is therefore a tendency to over-finance the needy members for unproductive purposes. The solvent members too often demand high dividends and in their anxiety to keep up high-lending rates forget that the object of a credit co-operative society is not uncontrolled credit. The associations organized on a provincial scale

suffer from these defects to a special degree, as they do not provide that close contact and knowledge amongst borrowers which is an essential condition of controlled co-operative credit. The larger their scale, the greater is the likelihood of factions amongst them. On the other hand, there is a greater saving of overhead charges and a better capacity to borrow outside money. We are therefore in favour of medium-sized societies which should not be too small and at the same time so large as to become unco-operative.

80. *Size of employees' societies.*—On these grounds we think the largest localized *amla* society of its kind—the Secretariat Co-operative Banking Society with 669 members and Rs. 1,69,199 as working capital might well be split up. For the same reason, we are not in favour of amalgamating the 22 Tisco societies, with a working capital of Rs. 6,08 and a reserve of Rs. 72, into a single society as was urged by some witnesses before us at Jamshedpur. The problems which have arisen of one person borrowing from more than one society at the same place and the co-ordination of deposit and lending rates should be met by organizing a federation or a supervisory union at such places where there are a large number of societies of the same kind within a very limited area. This union should enforce a rule that no member should belong to more than one *credit* society. It may also arrange the loan of the surplus deposits of *plus* societies to *minus* societies without assuming any financial guarantee for them. This service will, however, be best rendered at Jamshedpur not by starting a central bank, as has been suggested by some, but by starting a branch of the Provincial Bank as recommended in Chapter VII. What is really needed at a place like Jamshedpur is the provision of facilities for collecting the savings which are made from the huge wages and salary bill of the Steel Company and subsidiary companies. It is essential that these societies should be constantly supervised by official superiors since without such interest and supervision the greatest guarantee for the security of the advances of these societies will be lost. Provident funds wherever they exist should serve as an additional security but should not be largely relied upon, since the object of a provident fund is to provide for the families and dependents of a bread-winner. It was urged before us at Jamshedpur that it was doubtful whether provident funds of employees could be legally attached for the non-payment of debts due to a co-operative society without the contributor's consent. We think that this important point should be examined by the Legal Remembrancer. But there remains the question whether on general grounds such attachment should be permitted. The Royal Commission on Labour in paragraph 232 of their Report advocated that provident funds of industrial workers should be protected against attachment for debt, as Government servants' and some other funds are now protected. We do not think that the Commission had in view attachment for

debts due to co-operative societies, and we consider that such protection, if it is granted for debts to ordinary money-lenders, should not be extended to cover co-operative debts.

We advise that it should be secured that members of these societies who borrow enter into a contract pledging their provident funds on behalf of their heirs in the event of their death. It will, of course, be necessary that the societies should so control the magnitude of loans, that they do not unduly encroach on the provision, which provident funds are intended to make for the families of workers. We understand that the best-managed societies decline to grant loans for purposes for which a member can borrow against his provident fund, and we commend this policy to others.

81. *Other industrial wage-earners' societies.*—We should like to see wage-earners' societies, of the kind already doing well at Jamshedpur, started in other industrial areas of the province, such as the coalfields, where it is well-known that indebtedness of the labouring classes is serious and labour discontent is growing. As the Indian Labour Commission pointed out, it is not to the interest of the employers themselves that the employees should be the victims of *kabulis* and other money-sharks who stand outside the pay office and seize the wages as they are disbursed. Such employees become the easy prey of unscrupulous agitators and are ultimately a source of loss and weakness to the employer. We recognize that there are more difficulties in the coalfields than at Jamshedpur since the labour force is more fluctuating in composition and much less intelligent. But with such help as the Industries Department can supply and with the cordial co-operation of the managers, which we think will be forthcoming, it should be possible to get ahead. We specially recommend an attempt in the newer railway collieries of Hazaribagh, and in Tatas' own colliery in the Jharia field, and suggest that for the latter the services of the Special Welfare Officer employed at Jamshedpur, who has a thorough knowledge of the working of the Tisco societies, would be most useful. In view of the seasonal character of a large part of the labour force, loans should be small enough to be repaid without difficulty on the earnings of a few months.

The Chief Accountant of the Tata Company in his evidence before us asserted that indebtedness amongst the employees of the company was growing and that it was proposed to carry out a census of such debt. We commend the idea of such a census and suggest it to other industrial establishments.

82. *Provincial employee associations.*—There are eight societies of employees, all servants of the same Government department, which have been organized on a provincial scale, the largest being the Provincial Civil Service Co-operative Association with a working capital of Rs. 3,30,783 and a reserve of Rs. 11,553. The seven

other societies cater for the needs of the employees of the Posts and Telegraphs, Police, Education, Excise, Income-tax, Agriculture, and Public Works Departments. These societies are homogeneous in the sense that they are open either only to gazetted or only to non-gazetted officers, except the Police society which is open to both. The mixing up of two classes of officers does not make for democratic and efficient working as members may not have enough knowledge of each other. There is some justification for organizing these societies on a provincial scale where the officers are too few to form a local co-operative society, are liable to transfer all over the province and know each other well in spite of the distance which separates them. We are therefore not opposed to them, but where these conditions do not exist, a localized society with a reasonable number of members would be preferable. In spite of the fact that these societies are run by Government officers, their management according to the last annual report of the Registrar, left something to be desired showing that the members do not take enough interest and leave things too much in the hands of the management. We have some reason to believe that loans are not infrequently granted for expenses on marriage or other social ceremonies and for purposes of even more unproductive character. We recommend closer control in this matter both in the interests of the societies themselves and also to avoid setting a bad example to other co-operative societies, which are even less able to afford unproductive finance.

83. *Traders' banks.*—After the employee societies, the traders' banks are the most important urban credit societies. There are at present six of them, two in Patna, one in Muzaffarpur and one in Darbhanga and two in Motihari. It is somewhat misleading to call them traders' banks, since it implies that their members are all traders and merchants while as a matter of fact they include, in addition to a directing element of lawyers, all kinds of persons, petty shop-keepers, ekkawalas, motor-lorry drivers and artisans, who have some visible assets in the shape of houses, stock in trade, etc. Modelled as they are on the Peoples' Banks of Germany and Italy, it would be best to call them by that name. They are limited liability concerns and invite deposits from the public at approximately the same rates as central banks. Properly managed, they should command enough public confidence to dispense with any assistance from the local central bank or the Provincial Bank. Four of them have unfortunately been financed by neighbouring banks, and their bad management has caused serious embarrassment thereto. The success of the remaining two shows that there is a need for such institutions and justifies an attempt to establish them in other towns of the province. Nevertheless their working shows some ignorance of banking principles. They do not keep adequate fluid resources; they grant loans for longer periods than the nature

of their business and deposits warrants and give an excessive number of *kists* for repayment; their loans on frozen security, such as house property, sometimes absorb too large a proportion of the total "forced sale" value of that property. Their managers are not adequately trained in commercial as distinguished from co-operative banking and they do not insist on quick recoveries. We therefore recommend great caution and much previous preparation before registering these banks on a large scale. Most of our financial, audit and training recommendations apply to them just as much as to central banks. The manager in every case must be a trained banker having practical experience of the working of a modern commercial bank. If all the precautions we have recommended are taken, these banks should have a bright future. The premier bank of this kind, the Peoples' Bank in Patna City, has over a thousand members and a working capital of nearly Rs. 2 lakhs including deposits of about Rs. 1¼ lakhs.

84. *Difference between traders' banks and artisans' credit societies.*—The dividing line between artisans' credit societies and traders' bank is not clear. We think that no society should be classed as a Traders' or as we would prefer to call it a Peoples' bank, unless it satisfies two conditions, viz., (1) that it is not limited to the followers of a single trade, and (2) that it is intended from the outset to attract non-members' deposits. If this definition is adopted, two of the societies dealt with in the preceding paragraph, i.e., those in Motihari, should be classed as artisan societies since we understand they make no attempt to attract outside capital, though they satisfy the first condition. The number of real Peoples' Banks is thus only four. The matter has some importance, since it is desirable that the general character of every co-operative society should be settled at its inception and the public should not be misled by the title given to it.

85. *Artisans' credit societies.*—Artisans' societies of homogeneous membership consist in this province generally of weavers or bell-metal workers, but occasionally of oilmen, shoemakers, tailors, etc. Very few of them have succeeded. The members have generally no security except the profits of their trade and these disappear when prices fall owing to a glut in the market or a change in fashion. The artisans, used to the ways of *mahajans*, expect the central bank to perform for them selling as well as banking functions, and the more honest of them feel that they have discharged their obligations fully if they deposit the products of their art at its doors. The bank has perforce to enter the market as a sale society for all kinds of goods or address pathetic appeals to the Department of Industries to come to its rescue. As neither the bank staff nor its directors nor the Industries Department are qualified to undertake this selling function, the debts due to the bank become rapidly irrecoverable. In this way,

artisans' societies, especially those organized on a large scale, have seriously undermined the financial position of some banks. On the other hand, industries exposed to world competition like the weaving industry can hold their own only when their production and marketing is organized on a large scale, unless the product satisfies a local want or fashion. As long as it is impracticable to set up a large scale organization for the sale of standard commodities, produced co-operatively, we recommend that artisans' sale societies dealing with such commodities should be discouraged. It is to be remembered that most artisans' societies are not credit societies, but by their very nature tend to undertake selling, and in some cases, supply functions as well. Loans should therefore be advanced to such societies whose operations are small and whose payments are regular on account of an *assured* market. To prevent their misuse for unproductive purposes, we would prefer that these loans be usually paid in kind, but unless carefully supervised, the dishonest members may, like some Bhagalpur weavers we heard of, sell the raw materials thus obtained for personal needs instead of producing from them. Stocks of raw materials needed by the societies should be kept as low as possible.

86. *Other credit societies.*—Other credit societies existing in the province are two home industries' associations, 58 fishermen's societies all in Orissa, 23 depressed classes' societies spread all over the province and one housing society at Patna. Of these the only fairly flourishing type is the depressed classes' society. These are really akin to the wage-earners' societies and have most of the advantages described above in paragraph 79, though the members are not able to take any large share in the management. Economically they are often better off than artisans, as their income does not depend upon the vagaries of the market their services generally being indispensable. Where they are properly organized by philanthrophists or by their employers, such as a municipal board, they are likely to succeed and to improve materially the condition of their members. We were favourably impressed with a mehtars' society which we inspected at Hajipur, and a similar society at Muzaffarpur with 59 members and a working capital of Rs. 1,003, derived mainly from deposits and share capital, is reported to be working well. We recommend that more attention be paid by the department to such societies, especially those for municipal employees, and where they are not working satisfactorily the causes of failure should be closely examined. After the debts of their members have been discharged they should be converted into thrift and better-living societies, especially to promote temperance and improved sanitation.

Most of the fishermen's societies are in a bad condition. They have to face all the difficulties of societies, whose members have little character or education, and in addition their source of income

is precarious and has in recent years become more so, owing to a falling off in the catches. It is not surprising that the members are again falling into the hands of the fish merchants. We think that better-living societies will be more suitable than credit societies for these people also.

The single housing society at Patna called the Pioneer Co-operative Housing Society does not seem to have been started for men of limited means, contemplated in the preamble of the Co-operative Societies Act, since most of the members are flourishing lawyers and public servants. It will take a long time before " men of limited means " save enough money for building houses. We think there is some scope, and may in the future be more, for such societies in the larger towns of Bihar, but they cannot be financed adequately until long-term capital is available. We expect that, if a Provincial Land Mortgage Corporation, which we discuss in Chapter IX, comes into being, it could finance urban land mortgage banks founded for the purchase and construction of houses. But at present most of us doubt whether the Act permits the registration of housing societies of the type of the Patna society, and we are certain that there is no co-operative institution which can safely finance them.

87. *Non-credit societies. Co-operative production and sale.*— The remaining societies to be considered are non-credit societies of supply and consumption, production and sale and miscellaneous societies. The only society of non-agricultural production is the Radha Nath Co-operative Press at Cuttack which is owned and run by the workers, 17 in number, with a working capital of Rs. 8,482. As long as it publishes the Oriya Co-operative magazine and prints the forms and registers for the Orissa co-operative societies, its market is assured, which explains success in this difficult form of co-operation. Other ventures not so fortunately situated have been liquidated. There are no sale societies over and above those referred to in connection with weavers' societies. Both production and sale societies are extremely risky and should be started with great caution or not at all at present.

88. *Supply societies. Consumers' stores.*—The problem of buying things in bulk for the use of members, even on the simplest indent system without the complication of a selling store, is so technical and requires so much business ability, that it is not surprising that most of the attempts in this form of co-operation in our province have been grievous failures. And yet after credit, co-operative supply is the easiest and simplest form of co-operation, and has proved a marked success in many countries. In this province three stores have made some headway, the Kanke Stores depending on the custom of the European Mental Hospital, the Patna Secretariat Stores and the Pusa Stores. There are seven other small stores scattered over the province and of these the

Balugaon Fishermen's Stores on the Chilka Lake is the least satisfactory. Bhagalpur has specialized in stores supplying electric goods and motor and cycle accessories. The success of these stores is due to the fact that they have an assured and easily foreseen market and cater for the requirements of the educated classes who can find the necessary supervising and marketing ability. Where these are absent cases of embezzlement and purchase of goods, which cannot be readily sold, are common and the store comes to grief. Other causes of failure are the absence of loyalty amongst the members, the limited range of goods offered by a co-operative store, and the keen competition of the retail dealer in India who shoulders all the risks of marketing on a very low margin of profit.

Lastly there is the fatal weakness of allowing extensive credit to members, or of cutting prices in order to meet competition without a close examination of cost. On the latter point we strongly recommend that prices should not be cut too fine, but profits returned to members annually as a percentage on their purchases.

However unfortunate the past experience of stores may have been in this province, we think there is some scope for starting consumers' supply societies for commodities in which price is not so much a consideration as quality. In urban areas the quality of milk and ghee supplied is often injurious to health, and societies of the middle class consumers may well be formed to deal in these articles on the lines of Europeans clubbing together for the purchase of wines, tobacco, etc. There should be ordinarily no sale to the outside public if risk of failure is to be avoided.

We also think stores of a general character might well be started in industrial areas, with the active assistance of employers, provided that they do not expect the support of central banks or the Provincial Bank for the enterprise.

89. *Miscellaneous societies.*—A few thrift societies have been started recently on the Punjab model in the Gaya district. We hope that these will succeed and before long the idea will be extended to other districts. There is special scope for them in the industrial areas and student centres. There are six health societies for rural sanitation, four of them in Puri district, with a membership of 876, which are being rightly assisted by the Puri district board. No better-living societies have been started in this province, but they are needed in urban areas just as much as in rural parts, for curtailing expenditure on social ceremonies and litigation.

PART III.

FINANCE OF THE MOVEMENT.

CHAPTER VI.

Finance, General.

90. *Early sources of finance.*—We have already traced briefly in Chapter II the history of the finance of the movement and described in Chapter III the problems created by loans being given for debt redemption and other long-term purposes from the very inception of the movement. The first primary societies in this province were financed partly from Government funds, partly from funds supplied by enlightened zamindars, and enterprising planters and partly from a fund of Rs. 15,000, placed at the disposal of the Government of Bengal by that eminent philanthropist Sir Daniel Hamilton, who still continues to work for the co-operative movement. As soon as the movement had been successfully launched, the Registrar and the honorary organizers were able to tap the local resources of the vicinity, in which the early societies had been started. But, as the movement grew, the need for larger and more permanent resources was felt and to meet this need the central banks and the Apex Provincial Bank were started.

91. *Need of outside financing agency.*—According to the pure theory of co-operation it was to be expected that as the primary societies grew in strength and collected a sufficient amount of savings from the members, the need for outside finance would gradually disappear or at least be materially reduced. The savings of the richer members would supply the deposits of the society, from which the poorer members would be financed. These expectations have not been fulfilled in Bihar and Orissa and the primary societies still continue to depend for most of their finance on the central banks, all of whom in their turn depend for their fluid resources, and some for much more than that, on the Provincial Bank. At the end of the year 1930 the primary societies had only Rs. 16,10 paid-up capital, Rs. 32,35 reserves and Rs. 8,89 deposits by members and non-members, and thus out of Rs. 2,41,48 total working capital, no less than Rs. 1,84,14 was supplied by central banks. Ten years earlier the figures were,

paid-up capital Rs. 99, reserves Rs. 6,77, and deposits Rs. 4,14 against a total working capital of Rs. 48,33. Though the proportion of money owned or raised locally has slightly improved, it is obvious that centralized financing agencies are still very important, and likely to remain so for any period that we can foresee.

92. *The most suitable centralized agency.*—That being so, it remains to be considered whether the finance of primary societies should be supplied (*i*) by a single central bank with branches all over the province or (*ii*) by a number of central banks entirely independent of each other, or (*iii*) by a number of central banks, united into a single banking system by the co-ordinating authority of an Apex Provincial Bank. The first method is broadly that hitherto adopted in the Bombay Presidency, while the second method has been followed up to the present day in the United Provinces. Bihar and Orissa has from 1914 onwards followed, on the whole, the third, which also prevails in the Punjab and the Central Provinces. Authoritative co-operative opinion is now agreed that both the Bombay and the United Provinces methods of co-operative financial organization are unsuitable and the Central Banking Enquiry Committee has endorsed this opinion. The Bombay Banking Enquiry Committee in its report has recognized the need of an intervening link between the Provincial Bank and the primary societies. On the other hand, the United Provinces Banking Enquiry Committee report has emphasised almost equally strongly the need of an apex Provincial Bank to serve as a balancing centre for central banks and to supply fluid resources to the movement in case of need by establishing a link with the general money-market. The former has therefore recommended the creation of central banks, while the latter has advocated the setting up of a Provincial Bank at the earliest opportunity. These views have been further endorsed by the foreign experts who were associated with the Indian Central Banking Enquiry Committee. The existence of financing agencies of primary societies in two storeys raises the important question of how they should be related to each other. But before we deal with this, it is necessary to consider an even more vital question.

93. *Short-term and long-term finance.*—That question is whether it is possible for the same finance organization to continue to serve the movement in the supply of both short and long-term funds. Co-operative societies in India were originally started for supplying both kinds of finance, the object being to release the agriculturist from the clutches of the *mahajan*. Informed co-operative opinion in Europe has, however, for a long time insisted that co-operative societies should confine themselves to supplying the *working capital* or the annual requirements of agriculture,

while the capital for debt redemption and long-term improvements should be supplied by special institutions, in fact by land mortgage banks. As has been explained in Chapter II, the early workers of the co-operative movement in this province were deeply impressed with the indebtedness of the raiyats and usurious rate of interest which they paid for their loans to the *mahajan*. They therefore favoured the policy of "full finance" and advanced large sums of money for redeeming the whole debts of members. The fall of prices, occasional failure of the harvest and the insufficient repaying capacity of members of hastily organized societies have further had the effect of converting, to a considerable extent, even short-term loans into long-term commitments. The Registrar has recently given his opinion that at least 60 per cent of the total outstanding loans to members or about Rs. 1¼ crores have been granted for long-term purposes. Against this the "owned capital" of the movement is as follows :—

	Paid-up shares.	Reserves.
	Rs.	Rs.
Provincial Bank ...	... 5,77	4,20
Central banks ...	... 24,16	15,09
Primary agricultural societies	... 16,10	32,35

These amounts are not fully available for backing long-term loans, since the reserves of the primary societies are largely held in shares of the central banks, and those of the central banks in shares of the Provincial Bank. It is evident that a considerable part of the outstanding loans for long-term purposes rests on deposits, of which less than one-third are made for periods exceeding two years. This raises a banking question of the first magnitude, viz., whether it is safe to continue to finance long-term loans on such a basis.

94. *Action required for strengthening the financial position.*— We are absolutely convinced that it is not safe, and that action must be taken to place the finance of the movement on a more secure basis. The action we advise is the establishment of land mortgage banks with as much expedition as is compatible with sound organization. We set out in Chapter IX the reasons for that advice and the steps which we propose for putting it into practice. At the same time we recognize that it will be some little time before a net-work of land mortgage banks can be brought into being to relieve the existing central banks and their primary societies of a large part of their long-term commitments.

In the interval we think that it would be prudent to strengthen the finance of the movement by the issue of debentures by the Provincial Bank with a Government guarantee of interest throughout their currency. It would further be advisable for central banks

to strengthen their own position by inviting those, who have supported them with their deposits in the past, to lengthen the term of their deposits on renewal, and even, if necessary, to induce them to do so by a moderate increase in their present interest rates. We are well aware that debentures are, in most ways, a much better support for long-term commitments than deposits of long period, but we expect that some money will be attracted in the more familiar form of deposits, which will not be forthcoming for debentures. We think that whichever form the investors choose they will have no cause to regret their confidence, provided that the central banks take promptly the necessary steps to review their position in respect of their commitments, to restrict their new business closely to short and medium-term loans, and generally to prepare for the starting of land mortgage banks. We also assume that our chief recommendations on other points will be accepted, and carried out by all concerned with the zeal and energy, which should characterize co-operative membership. We have no intention whatever of recommending financial assistance or support by Government for co-operative institutions, which are not prepared to put their house in order.

95. *The proper relations between the Provincial and Central Banks.*—After this digression on one of the outstanding problems raised in our enquiry, we now revert to the question of the relations, we think should exist between the various financing institutions. We take up the relations of the Provincial Bank with central banks first. There are three possible ways in which they may be connected with each other. The Provincial Bank may simply be a union of central banks without any outside element in the shape of preference shareholders or *ex-officio* directors, deriving all its capital from the credit of its constituents and its managing ability from their directorate. Or it may be a corporation with a strong infusion of outside share capital and business ability with such powers of control over the financial policy of central banks, specially in the matter of deposits and lending rates, as to reduce them almost to the status of branches or agents of the Provincial Bank. Lastly both the Provincial Bank and the central banks may be independent of each other except for such loose relations for the purpose of co-ordinating financial policy, which must inevitably exist between members of the same movement which borrow and lend from each other. The first type was represented by the old Central Provinces Provincial Co-operative Bank and the second type roughly, though not exactly, by the Burma Provincial Bank which had direct relations with a large number of primary societies. Both these Provincial Banks came to grief and have been revived only at the cost of serious financial sacrifices made by the Governments concerned. They failed because they represented two different types of a centralized banking organization under which the connection between the apex bank and its constituents is so close and

intimate that defects and faults in one part of the structure react on the whole bringing the entire structure to grief. The septic part cannot be easily segregated and before it can be amputated by a surgical operation the poison spreads insidiously over the whole system making all remedy impossible. The Central Provinces Provincial Bank failed because of financial mismanagement and incompetence at the top, while the Burma Provincial Bank collapsed partly from the same cause but largely because of weakness of the primary societies and guarantee unions at the bottom. The Central Provinces Government, if it were to save the movement at all, had no option but to come to the rescue of the Provincial Bank, because being a union of central banks its liquidation threatened to involve the whole movement. Of the Burma Provincial Bank the entire foundation had been eaten away by the decay of its borrowing societies, which had been recklessly financed on the mistaken advice of the department.

96. *Centralization* versus *decentralization.*—We have carefully studied the experience of these two types of centralized banking organizations as presented in the Central Provinces and Burma Committee reports and we do not recommend either of them. However fascinating the ideal of a co-operative union of central banks may be in theory, we do not think it to be a practicable proposition in present circumstances in this province. It will take some time before borrowing banks can look upon the interests of their financing institution as their own without the steadying influence which the interest of lenders or the detached guidance of officials can supply. Nor are we in favour of entrusting excessive powers to the apex bank over the central banks. We have carefully examined the suggestion that central banks should act as branches or agents on a commission basis of the Provincial Bank, at least in the collection of deposits, so as to secure money for the whole movement on the combined credit of all the banks at lower rates, and solve at one stroke the problems of fluid resources of central banks, of the co-ordination of their varying deposit rates, and of the financial control of the *plus* banks. But we think these undoubted advantages may be bought too dearly. The idea is simple and attractive but it has the defects of its simplicity. It could only be worked by organizing and managing ability at headquarters of a higher order than the movement can afford at present. Further, the control from the centre will involve such excessive regulation of varying deposit rates to suit the varying conditions of the different parts of a heterogeneous province and ultimately of lending rates, that local enterprise and initiative will be paralysed and grave risks are almost certain to develop. These problems have been solved by joint stock banks with branches all over the country but they are beyond the restricted scope of co-operative banking. We are therefore against the suggestion.

97. *The loose federal type of banking organization favoured.*—On the whole, then, in the present circumstances and in view of past developments in the province, we favour the existing decentralized system with modifications rendered necessary by the need of co-ordinating and controlling financial policy in the wider interests of the whole movement. We desire the Provincial and central banks to act as independent units, so that each party may feel a sense of separate responsibility without getting a chance to cover its faults and mistakes by taking refuge behind the other. We feel that this will make for better business and more efficient management. The central banks should be encouraged to stand on their own legs and even allowed to have direct relations with reliable commercial banks. Their capacity to inspire confidence and to discount co-operative paper with them will supply the crucial test of business efficiency, that of the opinion of the money-market. The relationship should not be so close as to enable the Provincial Bank to repair possible mistakes of financial policy by using departmental pressure to pass on a glut of deposits to central banks, or the central banks to lean so heavily on the Provincial Bank as to visit on its head results of reckless finance and loss of deposits due to failing confidence in their management. We think the Provincial Bank should no longer have to rely solely on the advice of the department in deciding whether to finance a particular bank, but should also have available information collected through its own inspectorate.* Otherwise it is courting the fate which overtook the Burma Provincial Bank. In other words, we believe that the financing banks, both Provincial and central, would best promote the interest of the movement by acting as business institutions with a due regard for co-operative principles. We cannot too strongly emphasize that to the extent, to which they are able, by efficiency in the conduct of their business, to improve their credit in the money-market, they will be able to lower the price at which they can pass on finance to the primary societies.

98. *Co-ordination of financial policy.*—Nevertheless some co-ordination of financial policy is necessary both in the interests of the banks and of the movement as a whole. Hitherto the only link between the Provincial Bank and the central banks has been through the Department which has used its influence rather than its limited legal powers to settle any conflict of interest between these two organs of the movement. This indirect method operates slowly, while the general financial situation may require quick action. For instance, for a long time, the central banks were attracting deposits at very high rates of interest, much higher than the market justified, in fact higher than the rate at which the Provincial Bank was prepared to lend to them. The result was a glut of deposits, which, besides being a source of loss to the banks,

* But see note on page 170.

was a potent cause of the over-financing of societies. It took the Registrar nearly three years to induce all the central banks to bring their deposit rates in conformity with the Provincial Bank's lending rate. We are therefore of opinion that more effective and more direct measures are needed to co-ordinate the financial policy of the Provincial and central banks. While the latter, having the majority of representation on the directorate of the Provincial Bank, are in a position to influence its policy effectively, the Provincial Bank has no such corresponding power over the central banks. The only power it possesses is to refuse finance to a bank needing it, a power which it is reluctant to exercise when the bank is hard pressed by its depositors, and which is utterly ineffective against *plus* banks which have no need of its money. These banks may however require as much control as the *minus* banks, since they may have embarked on a policy of collecting deposits at unprofitable rates, thus making themselves independent of the Provincial Bank, and of reckless financing of societies as an outlet for the funds obtained in this manner. We therefore recommend that the Provincial Bank should be empowered by statutory rule (*i*) to call for returns, papers, and statements from all central banks, (*ii*) to insist on their inspectors having access to all papers required for an adequate inspection of a central bank, (*iii*) to fix their borrowing limits and (*iv*) to determine from time to time their rates for all classes of deposits after taking into consideration local circumstances. The object of the last proposal is to see that, as far as possible, the borrowing rate of central banks does not exceed the lending rate of the Provincial Bank. We shall deal later with the methods and machinery for carrying out this policy.

99. *Financial relations between central banks and primary societies.*—We wish similar principles to be observed in determining the financial relations between the central banks and primary societies, subject to modifications necessitated by the fact that the primary societies, as constituted to-day, are not in a position to stand on their own legs. We recommend elsewhere that the society shareholders should have a majority of representation on the directorate of the central bank, so as to mitigate to some extent the present excessive predominance of the preference and individual shareholders and guarantors. In the interests of the societies themselves, however, the outside element should not be altogether eliminated. Financing will naturally be left to the discretion of the central bank, but, in order to check over-financing, it is essential that the borrowing limit of primary societies should be fixed by the central bank, subject to report to the Registrar. If the Registrar and the financing bank cannot agree, the lower of the two figures suggested by them should be taken as the borrowing limit.

100. *Deposit rates of primary societies.*—The two foreign experts, associated with the Indian Central Banking Committee,

who had special knowledge of co-operation, recommend as high rates of deposits as possible for primary societies as the best way of increasing the local supply of capital, and ultimately reducing the rate of interest and making them free from the control and overhead charges of central banks. We concur in this view, and in order to provide that the central banks do not offer any obstacles to this desirable development, we recommend that the conditions and rates of deposits of primary societies should be determined by the Registrar on the advice of the central bank, subject to the provision that those rates should not exceed the lending rates of the central bank. The central bank should of course have the right of calling for returns, papers and statements from the primary society and should also receive a copy of the audit note from the Department.

101. *The Provincial Bank and important limited liability societies.*—The Provincial Bank in relation to important limited liability societies like Peoples' banks, dealing directly with it, should have the same powers as those recommended for it in relation to central banks.

102. *Restrictions on deposits of central banks and primary societies.*—In the early stages of the movement restrictions were imposed on certain forms of business of primary central banks and primary societies. We have to consider whether these restrictions are justified now that greater experience has been obtained and more business ability is available. Instances of these are the restrictions on the opening of current accounts and conduct of remittance business and collection of bills by central banks and acceptance of deposits by primary societies. We think that some of the central banks have reached a stage of development, or will reach it after our recommendations have been carried out, when they can be safely entrusted with some of these functions, subject however to the provision that they do not with the help of Government concessions compete unfairly with the other ordinary banking agencies. On the other hand, it must be recognized that in return for these concessions, central banks render special services to Government and the public in the field of education, sanitation and agricultural development involving expenditure from which ordinary banks are exempt. If some means could be devised to enable the central banks to earn some more money to meet those expenses, it would lighten their burdens materially. We do not, however, think that opening of current accounts will be profitable to them at this stage of the development of the cheque habit, as long as they are prevented from lending to individuals. Most bank customers in India open current accounts without, or on low rates of, interest with those banks only, from whom they can borrow. The technical knowledge regarding cheque transactions and the banker's obligations resulting therefrom is also lacking. More fluid resource will be required. On these grounds we are inclined to maintain the present restrictions

in this respect, but we do not wish them to remain absolute. Should the cheque habit grow to such an extent as to make current accounts profitable to some banks, the Registrar should consider the advisability of removing the restriction, after satisfying himself that the requisite technical staff has been engaged, and that adequate fluid resources will be kept. The business of bill collection and remittance should be open to all central banks, but in places where there is a branch of a commercial bank, such business should be limited to that of regular customers, whether individuals or societies, except that for places, with which the local commercial banks have no dealings, the business of occasional customers might be accepted. In no case should remittance transfer receipts be used for this purpose. Where a commercial bank is working, a central bank should not use its privileged position to compete unfairly with it, while where there is no such rival bank, it should not put up the rate against the public but simply cover all reasonable expenses with a small margin of profit.

103. *Outside deposits for central banks.*—We are not in favour of any restrictions on the outside deposits of central banks, as we believe such restrictions tend to keep up the high rates, prevailing in a locality, in the interest of a limited class of depositors, and prevent the free flow of funds from one place to another which is essential for a properly organized money-market. The competition, which may result from their removal, will conduce to business efficiency and enable central banks to find their position in the money-market. Any excessive competition will be checked by the powers of financial control we have recommended for the Provincial Bank. The importance of stimulating local thrift does not enter into the question as it does, when deposits in primary societies are considered.

104. *Deposits of primary societies.*—We think the present restrictions on the deposits of primary societies, though conceived in the interests of security, operate to keep them in a state of perpetual tutelage to the central banks. No society can develop any vitality if it is to consist always of helpless borrowers without any local resources of its own. We therefore think local deposits should be encouraged by all means, subject of course to such safeguards as may be necessary for sound development, particularly adequate fluid resources. We think the existing maximum of Rs. 200 for the deposit of any individual should be removed in the case of members of unlimited liability societies. This should operate to prevent the resignation of members who have discharged their debts and to secure the services of persons who have an additional stake in the society besides their personal unlimited liability. The rate of interest on such deposits should, if possible, be fixed as high as the local money-lender's rate on first class security, in order to prevent solvent members from setting up as money-lenders with the help

of their savings; but it should not be higher than the lending rate of central banks. Lower rates of interest should be offered for deposits of non-members *resident in the village* in A, B and C class societies, but the deposit limit of Rs. 200 should be enforced in their case. This will ensure local interest and such an increase in the supply of local capital as should ultimately result in the lowering of the rate of interest and render village money-lending unprofitable. No deposits outside the village should be accepted.

105. *Adequacy of finance.*—The general inadequacy of finance, which was felt at the beginning of the movement, has now largely disappeared as a result of the organization of central banks and the Provincial Bank. The inadequacy persists to some extent in Orissa and Chota Nagpur in the sense that somewhat higher rates than those prevailing in Bihar are necessary in order to attract deposits. In most of the older banks throughout the province, there was indeed, in the years before the depression, a glut rather than a scarcity of deposits, so much so that in many banks deposits were and still are refused. With the Provincial Bank acting as a balancing centre for the whole movement and ready to come to the help of *minus* banks, there is no part of the province which need fear a scarcity of capital, given sound management. The co-operative central banks have rendered a great banking service to the province by tapping fresh supplies of money in rural areas, some of which was lying idle in the absence of modern facilities for investment. Though much of the early money came, and a good portion of the present money still comes, from professional men and Government servants, there is good reason to believe that zamindars and money-lenders have begun investing their surplus money in co-operative banks. Investment by women is also a growing feature, but we suspect that much of this is *benami*, the name of the woman being used as a screen for her male relative against possible claims of creditors. As the movement is now able to borrow most of its money at the same rate as or only slightly higher than Government has to pay, these supplies are not only likely to be well maintained, but will, we believe, keep pace with future requirements for the proper business of ordinary co-operative societies.

106. *Supply of long-term finance.*—These remarks of ours are true about short-term money. It is, however, doubtful whether we can make the same statement about long-term finance which the movement badly needs. As we have said, the Registrar has recently estimated that at least 60 per cent of the total amount of co-operative loans outstanding are really long-term loans, and these are being financed largely from short-term deposits. This is financially unsound and therefore it has already been proposed to raise debentures to replace those deposits. In the last three years a succession of schemes have been put forward by the Provincial Co-operative Bank but hitherto Government have not seen their

way to accept any of them. We recommend that the permanent solution for long-term finance is to be sought in the establishment of land mortgage banks, and that no action should be taken to compromise the success of such institutions. But to improve immediately the stability of existing societies, we are of opinion that the time has now come when a determined attempt to raise debentures backed by a Government guarantee of interest should be made. We believe that the attempt will succeed. It is largely a question of yield and security. The security of these debentures should be improved by giving them the character of trustee securities. There are no insuperable difficulties in the way of their successful issue. The habit of investing in long dated or permanent securities like debentures, stocks and shares is rapidly growing in the province. It has been the experience of co-operative banks that money-lenders and depositors are content to renew their loans and deposits from year to year if they receive their interest regularly. Many banks have 5-year deposits and even these are renewed. Once the nature and security of such debentures are realized and their purchase encouraged in the first instance by a fairly high yield, there is no reason why they should not become as popular as insurance or deposits in central co-operative banks.

107. *Is co-operative finance dear?*—The supply of finance being adequate, we have next to enquire whether it is being obtained at excessive rates. We have already said that the movement now obtains most of its finance at the same or only slightly higher than Government rates. As against the present rate of 6½ per cent for Treasury Bonds, the present Provincial Bank rates of 5½ per cent for one year deposits and 6 per cent for more than one year deposits are by no means excessive. Before the issue of these Bonds, its rates were 4½ and 5 per cent. Most of the central banks borrow at only slightly higher rates. Until three years back excessively high rates, amounting to as much as 8 per cent, were paid by some co-operative banks but these rates were partly justified, because we believe that, in the early stages of a movement, the surest way of increasing the supply of capital and the quickest way of lowering the rate of interest is to offer high rates in the beginning. It is on this ground that we still recommend high rates for deposits in primary societies. Once however the supply has been assured, the rates should be quickly lowered. The great fault of the central banks between the years 1927—29 was that they took a long time to lower their deposit rates in response to the changes in the supply of money. We therefore recommend that their deposit rates should be fixed by the Board of Directors, and not by the annual meeting of shareholders. Failing quick action on their part, they should be fixed by the Provincial Bank. The rates for primary societies should be fixed by the Registrar as we have advised in paragraph 100.

108. *Rates for short-term finance.*—While the rates for fixed deposits for a year and over are reasonable, the movement pays more than it ought for its very short-term finance. The present rate of 4½ per cent on savings bank accounts, operated as they are practically as current accounts, is slightly excessive and should be reduced, where conditions of local competition permit, to 4 per cent. So reduced, it would still compare favourably with the Imperial Bank and Post Office rates. We think that a difference between these rates and the co-operative rates should be maintained, and all possible attempts should be made to increase those deposits, in order to substitute this cheaper money for the dearer fixed deposit money for financing the predominantly short-term requirements of agricultural societies.

109. *The working of the "one date deposit" system.*—The principle known as "the one date deposit system" has been adopted in all central banks of making all fixed deposits repayable on a single date, in most cases the 31st May. Two months' notice of withdrawal is required. This system has great advantages in reducing both the need for vigilance by the bank's executive and the requirements of fluid resources. But obviously a deposit made in February gains the advantage of the rate suitable for lending money for a whole year. We suggest that a rate of at least ½ per cent below the one year rate be offered for deposits made after the 1st January. Apart from this, the fixed deposit rates are certainly excessive, if an unrestricted right of premature withdrawal is coupled with them, reducing them practically to the level of savings bank accounts. We understand this practice, opposed to all sound banking principles, is justified on the ground that it softens the rigidity of the "one date" system and by giving facilities at a time of need makes co-operative deposits popular. It is also urged that most banks cut down the rate of the previous months to that of savings bank deposit or even decline to pay any interest at all since the last "one date". We do not think these considerations justify the financial loss and the dangerous depletion of fluid resources caused by this practice, and we therefore recommend that it should be stopped. The advantages mentioned can just as well be obtained by allowing customers to borrow, as in commercial banks, against their deposits at special rates of interest, the bank reserving to itself the right to refuse all payments before the due date, should its position require it. Ordinarily the bank will not compromise its reputation by refusing such accommodation altogether in a time of crisis, but it can discourage its use effectively, by charging a very stiff rate of interest for this privilege and preserve its fluid resources by lending a lower proportion than usual of the total deposit. It was urged before us that section 29(1) of the Co-operative Societies Act stands in the way of making such advances to depositors, who are not members. The Provincial Bank, however, though registered under that Act,

does advance money on the security of fixed deposits, and we find that it has been specially empowered to do so by an order of the local Government under section 46. We recommend that a similar order be passed to enable central banks to follow suit.

110. *Substitution of cheap for dear finance.*—Another method by which cheap finance may be substituted for dear finance is to allow some selected central banks to open current or savings bank accounts for such public bodies as municipalities, district bodies, educational institutions and charitable trusts. We are not prepared to recommend this privilege for all central banks at the present stage as many of them do not come up to the standard necessary for the discharge of such functions. The most fruitful method, however, of getting cheap money is to discount, during the slack season, co-operative paper of not more than 9 months' usance with commercial banks in touch with the general money-market, such as the Imperial Bank of India or with the proposed Reserve Bank when it comes into being. It is however essential, in order to qualify for this privilege, that " mixed banking " should be given up and the co-operative banks should confine themselves entirely to meeting the short and medium term requirements of agriculturists.

We are also hopeful that ultimately cheap village capital may be forthcoming by developing the deposit business in the primary societies.

111. *Fluid resources.*—As a cover against outside borrowings, the Maclagan Committee prescribed a standard of fluid resources for all classes of institutions which is now considered to be too high. It prescribed for central banks 75 per cent against savings bank deposits, 50 per cent against the total of fixed deposits falling due in the next year, and 100 per cent against current accounts. For the Provincial Bank it recommended similar standards for savings bank and current accounts, but for fixed deposits it suggested one-third of those falling due in the next year, since it was expected that the fluid resources of the central banks would be maintained by it.

Experience of co-operative credit, which was not available to the Maclagan Committee, has shown that the calls for refund of deposits are not so sudden and numerous as in commercial banks, and many depositors, at least in this province, allow their deposits to run on from year to year. The introduction of the one date system in this province makes it unnecessary for central banks to hold as large fluid resources as would be required under the ordinary system of varying dates of payment. In the peculiar conditions of this province, the one date system has hitherto proved successful, and we recommend that it be retained, subject to this modification that different banks may have different fixed dates of payment, so as to spread the pressure on the Provincial

Bank for the supply of fluid resources at a time of crisis involving a heavy withdrawal of deposits. We understand that the Siwan and Gumla central banks have already changed their fixed date from 31st May to 31st December. We recommend that the Registrar should induce other banks to examine whether a change of date would not suit the agricultural conditions of their areas.

112. *Excessive dependence on the one date system and the Provincial Bank.*—Useful as the one date system is, we think it has bred some degree of false confidence. Many of the central banks relying on it have kept inadequate separate fluid resources against their deposits and have trusted to the Provincial Bank to find funds to meet the withdrawal of their deposits after due notice. This has thrown a heavy burden and responsibility on the Provincial Bank which we think it ought not to be called upon to bear. If such a state of things were allowed to persist, a single mistake on the part of the Provincial Bank might jeopardize the whole movement. We have already sketched the loose federal relations which, we think, ought to exist between it and the central banks, and if our view is correct, we think that the central banks should provide their own fluid resources apart from those which may be held by the Provincial Bank for the whole movement.

113. *Modification of the recommendations of the Finance Committee of* 1922.—The question of fluid resources for central banks was examined by the Finance Committee which was appointed by Government in 1922. Its recommendations were that while relying on the one date system for meeting fixed deposit withdrawals the central banks should lodge 25 per cent of their savings bank deposits with the Provincial Bank, which should maintain a special account of this money on the liability side of its balance sheet and itself invest 50 per cent of this money as a special reserve. The last word is not very happy. It clearly means that the Provincial Bank should invest 50 per cent of this amount in Government securities, as it is required to do for money on savings bank account from outsiders, to serve as fluid resource. In the course of our inspection of central banks we found that several do not follow this rule. We think that the Registrar should promptly withdraw his sanction to the conduct of savings bank business by a society, which neglects this very salutary rule. In the light of subsequent experience, we think the Finance Committee of 1922 over-estimated the security afforded by the " one date " system. Its successful working, as the Registrar pointed out in his evidence, premises (*i*) that collections from societies in any year would equal the deposits maturing in that year, (*ii*) that no long-term purposes loans would be advanced out of these deposits, and (*iii*) that there would be no premature withdrawals against them. Since none of these conditions are now-a-days exactly fulfilled, the value of the one date deposit system has been diminished. We trust that as a result of our enquiry the conditions will be more

nearly fulfilled in the future, but we think that for some time to come at least, central banks should be obliged to lodge with the Provincial Bank 12½ per cent of the amount of fixed deposit, which they may be required to pay on the next " one date." This should be in the form either of Government securities or of a fixed deposit repayable on the " one date." The required sum should be made up by the 1st January and left untouched till the 15th March. If any bank fails to make such provision, and comes down on the Provincial Bank for fluid resource, we think it should be obliged to pay a heavy rate for such accommodation.

114. *An alternative plan.*—A possible alternative which deserves examination is that the central bank should deposit Government securities with a branch of the Imperial Bank, where there is one in the same place and draw against them at the prevailing bank rate when the occasion requires, i.e., when there is an excess of withdrawals of deposits over receipts from societies. A similar option might be given to invest the 25 per cent resource against savings bank deposits also in the shape of Government securities deposited with a branch of the Imperial Bank where one exists. It might make for efficiency and economy, as well as reduction of risk, if as much use as possible is made of the local branch of the Imperial Bank. For instance it might reduce expense materially, if a central bank converted all its cash and liquid resources into Government securities and arranged to pay all its customers, whether individuals and societies, by cheques drawn against a cash credit granted to it by the Imperial Bank on the security of its bonds. The whole burden of maintaining its fluid resources can thus be passed on to that bank.

115. *Other fluid resources.*—Where central banks are allowed to open current accounts 50 per cent fluid resource should be maintained as in the Punjab. All limited liability societies, such as Peoples' Banks, should maintain fluid resource on the same scale as central banks. Primary societies of unlimited liability accepting deposits from non-members should either arrange with their central bank to keep for them on a commission basis their fluid resource on the same scale. or should invest it in postal cash certificates which may be deposited with the central bank. Fluid resource statements should be submitted every month by central banks and other limited liability societies to the Provincial Bank, and the junior auditors in their two-monthly audit should be required to certify the correctness of these statements. Fluid resources should only be drawn upon for the purposes for which they are intended. No fluid resource need be maintained by societies of unlimited liability which accept deposits only from members.

116. *Fluid resource of the Provincial Bank.*—The Provincial Bank maintains at present a fluid resource of 50 per cent of its

savings bank deposits, 100 per cent of its floating and current and 100 per cent of its fixed deposits falling due during the next six months, all invested in gilt-edged securities. These provisions are adequate and in our opinion no alteration in them is needed.

117. *Difficulty of maintaining the proposed scale of fluid resource.*—We anticipate that some central banks will during the present depression find difficulty in working up to the scale of fluid resource we have recommended. We realize that when given effect to in their entirety, along with other recommendations which we make later, they will cut seriously into profits and hamper the building up of adequate reserves. But we think safe rather than speculative finance will pay the banks in the long run. On the Provincial Bank as the custodian of the financial conscience of the movement, should rest the duty of seeing that these standards of fluid resource are maintained, though it will have to relax them from time to time. To enforce compliance, where compliance is possible, it should not hesitate to use the new powers, especially that of controlling the maximum borrowing limits of central banks, which we have recommended for it. The one date system and the date fixed under it should only be changed with its consent.

118. *Reserves.*—Fluid resource is, of course, an entirely different thing from reserve, though it is not unusual to find the two confused. Fluid resource is required to enable a bank to meet in cash demands from persons, who have entrusted their money to it, when they fall due. Reserve is that part of the profits made year by year which a bank is required or may decide to withhold from distribution as dividend. This may either be merely shown in a *reserve account*, which appears in the balance sheet, or be actually placed in a separate *reserve fund* by investing it in some form of security. The manner of treating it will depend primarily on the uses to which it is to be put. These are various. It may be needed for increasing the " owned capital " of the bank, beyond that subscribed as share capital, with a view to reducing the interest charged on loans. Or it may be regarded as an ultimate security for creditors of the bank should it be necessary to liquidate it, and thus operate as an inducement for depositors to renew their deposits and even to accept a lower rate of interest on them. Or it may be partly assigned to the definite purpose of cover for bad debts or depreciation of the value of securities in which the bank has invested. All this makes it difficult to lay down hard and fast rules for the rate of accummulation of reserve or for the way in which the reserve accumulated should be treated, i.e., used as ordinary working capital or separately invested either in another co-operative institution or outside the movement altogether. It is also somewhat difficult to stipulate the precise conditions, under which an inroad on the accummulated reserve is justifiable.

The minimum rate of accumulation is prescribed by section 33 of the Co-operative Societies Act, viz., not less than 25 per cent

of the net profits of the year. With the comparatively unimportant exception of certain industrial employees' societies, we think that this standard should be maintained. Indeed we think that it should be increased for all classes of societies to 35 per cent, the additional 10 per cent being assigned to cover bad debts, though this higher statutory standard* may be relaxed by order under section 46 when adequate provision against bad debts has been accumulated.

For the employees' societies, such as the " Tisco " societies at Jamshedpur, where collections, made by the company on pay day, are very good, and bad debts or sudden demands are extremely rare, we think that when 20 per cent of the working capital has been accumulated as reserve, the proportion of net profits required to be set aside may be safely reduced to 10 per cent. For this, again, an order of the local Government under section 46 of the Act will suffice.

119. *Separate investment of reserves.*—The present position is this. Circular 17 of 1921 of the Registrar issued under statutory rule 16 runs thus: " Every society or bank after its first four years' working shall invest 50 per cent of its reserve separately and thereafter should separately invest half of each year's contribution to the reserve fund. For this purpose the societies are required to keep deposits with or buy shares of central banks and central banks to deal similarly with the Provincial Bank to the extent indicated. The societies shall deposit this reserve fund in the central bank to which they are affiliated and the central banks in their turn should deposit it in the Provincial Bank. Purchase of shares by the banks and societies are to be treated as a separate investment of the reserve fund. Societies not affiliated to any bank should deposit this separate reserve in the Provincial Bank." By a subsequent circular of March 1922 it was laid down that a society's reserve invested in the central bank should be kept as a permanent deposit by the latter. These rules agree with the recommendations of the Finance Committee of 1922. The Federation Congress of 1923, however, resolved that the central banks should either invest 20 per cent of their paid-up share capital or 50 per cent of their Reserve Fund, whichever is less, in the shares of the Provincial Bank. The central banks with the exception of two or three have since followed the recommendation of the 1923 Congress. Thus most of them have preferred to place the separately invested portion of their reserves in the form of shares of the Provincial Bank rather than as deposits with it. Only a sum of Rs. 22,000 has been invested in the latter form. On the other hand, while at the end of 1929

* Mr. Batheja thinks it unnecessary to raise the statutory standard, and that the Department and the higher financing institution could and would induce the lower to build up a bad debt fund without a statutory " sanction " behind it.

the paid-up share capital of central banks stood at Rs. 23,53 and their reserves at Rs. 12,77, they had invested, at the end of 1930, Rs. 5,57 in shares of the Provincial Bank, a sum rather above 20 per cent of their paid-up share capital, but somewhat below 50 per cent of their reserves.

120. *Objects of reserve as at present defined.*—The objects of the Reserve Fund as laid down in the by-laws of central banks and credit societies are :—

(1) to cover any losses arising from any unforeseen circumstances,

(2) to meet any call which cannot be met otherwise, such payment being reimbursed to the fund as soon as possible,

(3) to serve as security for loans.

We find it somewhat difficult to follow completely the line of thought behind this statement. The first object presumably refers to bad debts, as well as to losses by fire, theft or misappropriation. These are clearly proper purposes for which a reserve should be provided. But debts, which are definitely bad, i.e., found after conclusion of liquidation proceedings to be irrecoverable, should be met by a reduction of the bad debt account (or, if that is insufficient, of the general reserve account) and a corresponding reduction on the other side of the balance sheet of the item " loans due ". Losses of the other kinds should appear as definite deductions from the reserve account, with an explanation of them. But as for none of these is the bank required to pay out cash to anybody, we think a *reserve account* is all that is necessary and, not a sum of money, specially put away for use when required, i.e., a true *reserve fund.*

The second object is distinctly more obscure.

The idea seems to be that when a call, by which we suppose is meant a demand by somebody for cash, occurs and the till is empty and cannot be replenished by drawing on other fluid resource, such as cash credits with the Provincial Bank, the bank should open a secret chest in which " the reserve " is kept. This idea has no relation to fact. Nor is it clear what kind of call is contemplated. Calls on a central bank do not come unexpectedly, the only dangerous call being for repayment of deposits, for which there is two months' notice. For a long time central banks have managed to get on by relying on the " one date " system to meet all calls, supplemented more recently by cash and maximum credits from the Provincial Bank. For this purpose, if we understand it aright, more *fluid resource* and not a separate " reserve fund " is appropriate. But we have already proposed to add a further requirement of fluid resource, viz., 12½ per cent on the amount of fixed deposits

that they hold due for repayment on the next " one date ", to be kept either in Government securities or as a short-term fixed deposit with the Provincial Bank. We cannot see any good reason for increasing fluid resource further by putting away a proportion of reserve, as a precaution against undefined sudden calls. Nor do we see how a bank, which had exhausted all its other forms of fluid resource and was driven on to this, could expect to reimburse its withdrawal.

The third object is, no doubt, sound, so long as it means merely that a strong reserve account enables a bank to get cheaper deposits and more ready help from the Provincial Bank. But if it further contemplates the investment of the reserve in gilt-edged securities, on pledge of which the Provincial Bank will be prepared to lend at need, then again the real idea is the increase of fluid resource against a contingency which is not defined.

It must be always kept in mind, that whatever proportion of its reserve, i.e., its accumulated savings, a bank is required to invest separately, is bound in ordinary circumstances to cause a corresponding loss of profit to it, since the rate of interest it gets on its loans to affiliated societies is sure to be greater than it can get from any other form of safe investment. The money so lost might have been used for increasing the proportion of owned capital to working capital and so reducing the rate of interest, which it is obliged to charge. While safety must of course be preferred to profit, the threatened danger must not be a vague one.

We wish then to keep as distinct as possible the problem of providing fluid resource and the problem of how the reserves should be utilized. We have already laid down a standard of fluid resource, which when it is reached should suffice to meet *emergencies*. The reserves should be used in the most profitable way for the institution, which has accumulated them, that is consistent with the general interests of the movement. We would thus allow the use of not more than 50 per cent in what is, or should be, the institution's most profitable investment, its own business. At least another 10 per cent should be invested, so that it will be available, if and when there is a general threat to the stability of the whole movement, though it is not necessary that it should be immediately available. It might be held, at the option of the institution, in gilt-edged securities, including first class debentures, or other safe and profitable investments, such as fixed deposits with sound banks *provided that they are outside the movement altogether*. The remainder, in the general interests of the movement, should be placed with other co-operative institutions, either as holdings of share capital or as fixed deposits. Ordinarily the central banks should deal in this matter with the Provincial Bank and the primary societies with the central bank to which they are affiliated.

We are aware that the Calvert Committee recommended that the Burma central banks should invest the whole of their reserve in gilt-edged securities. But the circumstances were wholly exceptional, especially in view of the collapse of the Provincial Bank.

No drawing on the reserve account should ordinarily be permitted without the sanction of the Registrar, who should keep the Provincial Bank informed of orders passed by him. An exception may be made by general rules regarding drawing on small separate accounts within the reserve account for special purposes, such as primary education.

Except for the industrial employees' societies to which we have referred, we do not think that the time has yet arrived when the process of building up reserves should be slowed down.

121. *Provision for bad debts.*—As a result of the fall in prices, landed property has depreciated in value. It had been expected that with all loans covered by adequate assets as shown in the *haišiyat* register and supported by the unlimited liability of other members, there would be no bad debts and all loans would be ultimately realized. Experience has, however, shown that this impression is far from correct. Careless financing has been more or less general, societies have been slow to take out awards, giving an opportunity to members to transfer their holdings, and liquidation proceedings have been tedious and costly. Lands acquired by banks as a result of foreclosure have seldom been profitably worked. Consequently some debts have become bad and some are doubtful. It is impossible to estimate exactly what proportion of them are definitely irrecoverable, until all means of recovery have been tried and liquidation proceedings have been finished. But we are glad to see that some steps have been taken to frame such an estimate. We recommend that this investigation be further pursued, and determined efforts be made to write off debts, definitely proved to be irrecoverable, against the bad debt fund or failing that the general reserve account with the previous sanction of the Registrar. In the Annual Report of 1930 the Registrar has made a rough estimate of the total bad or doubtful debts of the movement based on the reports of local auditors, and has put it at Rs. 21 lakhs against about Rs. 205 lakhs advanced by central banks to societies, i.e., about 10 per cent of the loans outstanding. We have no means of checking this figure thoroughly, but we believe it is somewhat exaggerated. In one of the banks we visited, the local auditor's figure of bad debt was checked by an experienced Assistant Registrar with the help of the Honorary Secretary and it was found that it had been greatly over-estimated. Whatever may be the exact amount of bad debts of the movement, we think that the total provision of Rs. 2½ lakhs made for them so far is very inadequate and that in view, specially, of the effects of the present depression

more provision should be made, where and when possible. There are, however, no materials for laying down a precise rule. A rule of thumb method will have to be followed and if an error has to be made it should be on the safe side. In the Punjab there is a rule that the bad debt fund of a central bank must be at least equal to 50 per cent of the dues from liquidated and D class (corresponding to the E class in this province) societies. We are not in favour of introducing this standard, since it would be based on the admittedly unsatisfactory system of classification which prevails in this province, and would also be inadequate. We have therefore recommended that, until greater experience is obtained, all classes of societies, primary, central and Provincial, whose business is subject to the risk of substantial bad debts, should set aside 10 per cent of their annual profits in addition to the present statutory provision for reserve, until the total fund reaches 10 per cent of the total loans outstanding. It is true that such a " fund " will in reality be merely part of the general reserve, and not, as is often imagined, a bag of money that can be opened when required. But we think that a separate account for it tends to keep before the eyes of those concerned with management the real position of the society or bank in the matter of solvency.

122. *A defect in the balance sheet of central banks.*—The present system of accounting for interest in the Profit and Loss account is that on the income side two kinds of provisions are made. The first includes all kinds of interest realized, and the second all kinds of unrealized interest already due, besides interest accrued but not yet due on the 31st of December. On the Expenditure side a provision is made for overdue interest that was not realized up to 31st December.

By making such a provision on the Expenditure side, it is assumed that the whole of the overdue interest is irrecoverable which is far from being a fact. Therefore by making this entry sometimes a profit is turned into a loss. There is another defect also in the system, viz., that by providing on the Income side all interest accrued but not realized up to 31st December, the banks proceed to distribute dividend on sums that have not been actually realized.

To remedy the defects it appears to us that the best way would be not to deduct the overdue interest in the account, but when the figure of total profit is arrived at, it should be subdivided into two heads, viz., (*i*) profits distributable, which will only include interest actually realized, and (*ii*) profits not distributable which will consist of all overdue interest as well as interest accrued but neither due nor realized.

In the balance sheet also no provision will then be necessary for overdue interest.

123. *Financing defaulters.*—We are not in favour of the policy of refusing even short-term finance to all defaulting members, which is being pursued by some central banks during the present crisis. Wilful defaulters deserve no consideration and should be weeded out by all possible means. But there are many deserving members whose default is due to the present depression or to causes beyond their control. It is the elementary duty of a bank to carry its honest customers through a crisis as most banks are doing in all parts of the world. It is also its interest to do so, since if it drives its customers into insolvency, its debts become irrecoverable and it hastens its own end. In other words it goes into voluntary liquidation when it ceases lending.

124. *Lending rates of co-operative banks. Margin between them and their borrowing rates.*—The Central Banking Enquiry Committee noted the high rates charged by primary societies from members in some provinces including Bihar and Orissa, and recommended that if a rural society charges its members a rate higher than 12 per cent per annum, it should form the subject of careful enquiry by the Provincial Government and the Provincial Bank concerned and steps should be taken to reduce the rate of interest. The Bihar and Orissa Banking Enquiry Committee also commented adversely on the high lending rates of societies in this province ranging from 12½ to 15⅜ per cent and expressly invited the department and this committee to investigate the causes of the high margin of 5 to 6 per cent existing between the borrowing and lending rates of central banks. We have not been able to collect exact figures for this purpose in the short period of our enquiry. But we are agreed that the margins between the borrowing and lending rates of the Provincial Bank (slightly less than 1 per cent) and of primary societies (between 3 and 4 per cent) respectively are not too great. The margin of central banks is between 5 and 6 per cent and this requires explanation. We think that it is due to extravagant management charges, loss on unemployed money (including loans made to societies of special types which have ceased to pay either principal or interest), heavy audit and development contributions to the Federation, large dividends and wasteful expenditure on buildings. The necessity of building up reserves has no doubt operated to keep the margin wide. We do not of course deprecate expenditure for the last item. As a matter of fact the Maclagan Committee expressly recommended large margins for this purpose. But there is nothing to be said in favour of keeping the margin at its present level to cover doubtful or unprofitable charges. The central bank's margin in Bihar and Orissa is higher than in any other province in India. In the Punjab the working expenses of central banks in 1928-29 were less than ½ per cent of their working capital; in Bihar and Orissa the percentage was as high as 2.37. The higher expense ratio is no doubt partly due to the smaller size and consequently

the greater overhead charges of our banks. We have 67 banks for about 9,000 primary societies against 19 of Bombay, 31 of Madras and 47 of the Punjab for about 4,000, 13,000 and 15,500 societies respectively. Our working capital per unit is also much smaller. These considerations would point to a larger area than at present, say a district instead of a subdivision, for the operations of a central bank. We discuss this in Chapter VIII. In any case this alone does not explain our higher expense ratio. The total cost of management of 112 banks in the neighbouring province of Bengal in 1928-29 was Rs. 5,74,000 against Rs. 6,82,000, which was the total cost of 67 central banks in Bihar and Orissa in 1930. The audit, development and training charges on central banks of Re. 0-5-7 and on primary societies of Re. 0-8-9 per cent of working capital are probably the highest in the whole of India, while the cost of supervision of societies by central banks works out at 1½ per cent of their working capital. No doubt the central banks here undertake much expenditure on development, education and sanitation, which is considered to be a proper charge on Government in other provinces but much of this has borne little fruit. Dividends ranging from 9¾ to 10 per cent on preference shares have been declared and palatial buildings in excess of real requirements have been built, sometimes out of money borrowed from the Provincial Bank. A good deal of money is also spent on travelling allowances and entertainment charges. We think most of the expenses mentioned above could be materially curtailed. We recommend that each central bank with the assistance of the department should undertake a scrutiny of its budget for this purpose and utilize the savings effected in keeping a proper standard of fluid resources, in building up a strong reserve and bad debt fund and, lastly, in reducing its lending rate to societies.

125. *Importance of financial recommendations.*—We attach particular importance to our financial recommendations, as we believe that the financial safety of the movement offers the best guarantee for its future progress. It is only on sound financial foundations that co-operation can hope to build its structure of mutual help and lofty idealism.

CHAPTER VII.

The Provincial Co-operative Bank.

126. *Position of the Provincial Bank.*—We have already sketched the general relations which, we think, ought to exist between the Provincial Bank and the movement in general and the central banks in particular. We came to the conclusion that it should not link its fortunes irrevocably with them, much less control their detailed policy. It should give technical guidance and assistance to the central banks in their main duty of supplying the finance of the movement and may even interfere to make its *financial* policy effective, but it should never weaken their sense of individual responsibility. At present, we think, there is too close a connection between it and the central banks to permit the development of a sound financial policy and too little power for the Provincial Bank to enforce it on the central banks.

127. *Defects of the present position.*—The present relatively unimportant position of the Provincial Bank in the movement is mainly due to the fact that from its inception it has received the close guidance, approximating to control, of the Department. The Lyall Committee reported in 1923 that practically all the work of the Provincial Bank was done under the Registrar's advice and he had to recommend all loan applications to the Provincial Bank and even to canvas for its deposits. Successive Registrars have borne witness to the heavy work and responsibilities involved in these duties. The system has grown up as a result of the initiative in founding and developing the Bank having been that of the Registrar, and it has continued with the acquiscence of his co-directors. But it certainly tends to diminish the sense of responsibility of the Bank's executive, and to give it at least a subconscious feeling that ultimately Government will find a way out of difficulties, into which the acceptance of the Registrar's advice may possibly lead it. Such difficulties may certainly arise. There is a tendency for a Registrar to be reluctant to run the risk of damaging the credit of the movement by liquidating a central bank. Consequently he may be induced to recommend the Provincial Bank to grant a loan, which involves a disproportionate risk. No doubt the Provincial Bank's chief function is to support the central banks in times of difficulty. But it is not wise policy to run the risk of sacrificing the whole for the part. Another factor, which operates to reduce the status of the Provincial Bank below its ideal position

of the guardian of the financial interests of the movement as a whole, is the large representation of the central banks on its directorate. This is, of course, an inevitable feature, if the Bank remains co-operative, but it is impossible to deny that this element is unlikely to stand out strongly against a proposal to help a weak bank, which has the backing of the Registrar. It is to the credit of both the Registrar and the central banks' representatives that the dangers of the system have been so little in evidence. A third hindrance to the Bank fully performing its functions is the lack of any inspectorate, directly responsible to it. On this last point, we recommend that the Provincial Bank should have its own inspectorate for the supply of such information about the general financial condition of the central banks as it thinks necessary, to supplement that collected by the Registrar through the Assistant Registrars. We desire that the Registrar should continue to discharge his present function of recommending loan applications of borrowing banks and we think that the Provincial Bank should not entertain any application without such a recommendation. But the Provincial Bank, in the proper discharge of its responsibilities; should refuse an application, if its corporative judgment leads it to think that to grant it will seriously endanger its own financial position. It is far from our intention that the Provincial Bank should interpret this as a proposal that it should act precisely as an ordinary commercial bank would in similar circumstances. But we feel that the interests of the movement and those of the central banks themselves will be best promoted by the Provincial Bank functioning more than it has occasionally in the past as a *business* co-operative institution. Should a central bank be in temporary difficulties due to an agricultural crisis or an unprecedented trade depression, it should be the duty of the Provincial Bank to come to its rescue. But should the difficulties be due to past mismanagement, and be such as to require assistance on a scale which is almost certain to involve the Provincial Bank in serious financial loss or jeopardize its own existence, such assistance should be refused, unless Government, on special grounds, can be induced to guarantee the loan required. The Imperial Bank of India, though a semi-official bank, registered under a special Act of the Indian Legislature, and under what the Central Banking Enquiry Committee called " a moral obligation " to finance agricultural co-operative societies, has been in recent years pursuing a similar policy in respect of the co-operative movement in all parts of India. We think such action is thoroughly justified. When it is known that the cumulative results of errors on the part of central banks and departmental officials can no longer be passed on to the Provincial Bank, we think it will conduce to a greater sense of responsibility in all sections of the movement. Should this view of ours be accepted, we would, in case of a central bank, which is in serious difficulties, but which Government wish to support in order to

prevent either a disaster for a large number of poor and simple men, or a serious shock to the credit of the movement, prefer Government should render assistance at its own risk rather than at the risk of the Provincial Bank. There would, of course, be no objection to the Provincial Bank advancing money to a central bank in such a position on the specific guarantee of Government. Should there be, however, a general depression, like the present affecting a large number of banks at the same time and Government financial assistance, of the kind contemplated by the Central Banking Committee Report, should become necessary, we think, it would be best rendered through and at the risk of the Provincial Bank.

128. *Management and constitution of the Provincial Bank.*— Such being our view of the functions of the Provincial Bank we proceed to consider how far the present constitution and management of the Provincial Bank is suited to the discharge of these functions. We have indicated elsewhere the power which we wish it to have in relation to the central banks. We think, on the whole, the bank has been very well managed in the past and its business has grown steadily under all heads as the following statement would show :—

Provincial Co-operative Bank, Limited, Bihar and Orissa, Patna.

Year.	Share capital paid-up.	Reserves.	Distributable† profit.	Working capital.
	Rs.	Rs.	Rs.	Rs.
1914-15 ..	52,900	1,312	3,935	2,98,839
1915-16 ..	96,200	4,516	6,049	3,84,361
1916-17 ..	1,00,600	7,502	5,142	4,13,875
1917-18 ..	1,06,000	9,849	6,736	6,48,689
1918-19 ..	1,14,400	17,447	20,288	6,90,167
1919-20 ..	1,16,800	38,734	22,358	8,94,952
1920-21 ..	1,17,200	59,803	14,719	15,39,620
1921-22 ..	1,17,000	76,065	27,195	17,03,408
1922-23 ..	1,20,400	1,07,605	34,079	20,08,768
*1923 ..	1,30,800	1,28,101	23,120	30,91,102

*Short year of 7 months due to change of the co-operative year.

†The distributable profit excludes 25 per cent of the gross profit placed to reserve under the Act, the commission and dividend paid to the guarantors, and depreciation on buildings and furniture.

Year.	Share capital paid-up.	Reserves.	Distributable† profit.	Working capital.
	Rs.	Rs.	Rs.	Rs.
1924 ..	2,41,400	1,45,910	32,681	37,88,201
1925 ..	3,40,000	1,64,360	40,208	47,17,158
1926 ..	3,84,800	1,88,043	54,130	51,48,324
1927 ..	4,51,800	2,08,148	54,443	57,59,535
1928 ..	5,05,400	2,34,571	73,715	66,45,739
1929 ..	5,56,400	2,57,500	67,502	73,51,148
1930 ..	5,76,600	2,81,406	67,218	77,63,107

† The distributable profit excludes 25 per cent of the gross profit placed to reserve under the Act, the commission and dividend paid to the guarantors, and depreciation on buildings and furniture.

129. *Actual working of the bank.*—While the supreme authority is vested in the general meeting of shareholders, the management of the business and affairs of the bank are entrusted to a board of 17 directors. Of these two represent four guarantee shareholders with an actual investment of Rs. 20 and uncalled liability of Rs. 3,80, three represent the 30 individual shareholders, whose investment is Rs. 62, and uncalled liability Rs. 93, ten represent central banks and unions (two from each Revenue Division), whose investment is Rs. 5,06 and uncalled liability Rs. 7,59, one represents other affiliated societies, whose stake is insignificant, while the Registrar is an *ex-officio* director. This board, however, meets only once in three months and has in fact delegated all its powers to a working committee of seven directors, which meets once a month and transacts the business of the bank subject to the confirmation by the board. Emergency business is transacted, under a further delegation, by the honorary managing director, assisted by the paid secretary who is a trained banker. The members of the working committee do not all invariably attend, but the Registrar is present on all important occasions. It would thus appear that a good deal of business is disposed of by the secretary and the managing director, though most loan applications are placed before the working committee either in session or by circulation. The Registrar, as the head of the field staff, on whose information the bank depends for judging the wisdom of lending to central banks, and as the only channel for enforcing the demand of the bank on the borrowing banks, has generally an effective voice in all important matters of policy and even of detail. His advice is never disregarded, though on discussion with his fellow-directors he occasionally modifies it. There is no clear definition of the duties of the secretary and the managing director and of the powers of the working committee.

130. *Suggestions for improvement.*—This system has worked fairly well in the past, when the bank had a small working and share capital but it requires to be modified somewhat in view of its growing business and responsibilities. There have been few mistakes and these have been more due to defects of organization than of management, viz., absence of a direct link with the central banks and excessive dependence on the Department. In particular the business and banking element on the directorate requires to be strengthened. The bank has been fortunate in having secured the paid services of a competent secretary and the honorary services of public-spirited chairmen and of a managing director, a zealous co-operator who devotes many hours daily to the work of the bank. It will be difficult to find another man like him, and the bank should think seriously ahead, how his place could be filled, should his services for any cause be no longer available. We do not wish to lay down any absolute rule, but we think that his successor should be preferably a business man or a trained banker, if one can be obtained, so as to provide a second business or banking opinion in addition to that of the Secretary. Should such a man not be forthcoming from the ranks of the representatives of the individual and society shareholders, we think it should be provided from the nominated element on the directorate which we recommend below. It would further greatly conduce to the efficient working of the bank if the duties and powers of the secretary, the managing director and the working committee are clearly defined by rule for the purpose of fixing responsibility.

131. *Changes in the constitution of the bank.*—We think the existing constitution of the bank is generally satisfactory for its present purposes. It requires, however, the infusion of a fresh element, in view of the larger powers—greater than those of a banker's bank—which we have proposed for it in Chapters VI and XI. If these powers are to be exercised with a due regard for the interests of the various parties concerned in the movement—the central banks and their customers, the depositors and the financing banks like the Imperial Bank and the proposed Reserve Bank, and, last but not least, the general body of taxpayers who through Government supply a stout pillar to the edifice—we think it essential that the expert and business element on the board should be strengthened. If we are to avoid the fate of the Central Provinces Provincial Bank, this element should also serve to supply the balancing factor needed to mediate between the conflicting claims of borrowing banks out for reduction of the rate of interest and depositing shareholders anxious for their dividends. From the point of view of Government, it is important that it should have something more than the single advice of one individual, the Registrar, however competent he may be, in deciding its policy about an institution which concerns so intimately the life and welfare of so many persons. We therefore recommend that to supply

more financial experience and business ability the members of the Board of Directors should be increased by two to be nominated by Government.* The Registrar should, of course, continue to be an *ex-officio* director. We think the addition of such an element will lighten the very heavy responsibilities, which the Registrar bears, not only as a director, whose advice is bound to carry great weight on the board, but also as the officer to whom Government have entrusted the duty of seeing that all is well in the movement. It will, too, enhance the credit of the bank with the depositors and the money-market.

132. *Elected directors.*—We do not think the time has yet come to do without the directors representing individual shareholders. These supply the business ability and outside capital needed by the movement. The guarantors are no longer so useful as they were, since the Imperial Bank has ceased to grant a concession rate for drawings on the cash credit account backed by their guarantee. But as long as that cash credit, even at full bank rate, is required as part of the fluid resource, the guarantors are a strength to the bank, and should be represented. On an improvement of the general financial position, the question of dispensing with the guarantors' support should be considered. But, if that action is taken, it would be best to add the representation of guarantors to that of individual shareholders, in order to preserve the balance between stakeholders and potential or actual borrowers. This is no reflection on the capacity and knowledge of the representatives of the central banks, for we are glad to note, that in spite of their majority on the directorate, they have not furthered their own interests at the expense of those of the Provincial Bank.

It has been urged that the representation of central banks should be so arranged by rotation as to give a chance to every central bank to serve on the Provincial Bank directorate in order to emphasize the point of view of all banks, as well as to give to them all an insight into the practical working of the apex bank. We are, however, opposed to this idea, on the ground that it is not desirable to select this part of the directorate of the apex bank on any other consideration but that of fitness as evidenced by election. The object in view can be equally well promoted by conferences of central banks, which the Provincial Bank should summon from time to time to discuss questions affecting the relations between them and the bank. One such conference was held with good results in November 1930.

133. *Special Finance Committee.*—We think the powers, which we have recommended for the Provincial Bank, (*i*) to fix the borrowing limits, and the borrowing rates of central banks, (*ii*) to inspect central banks and (*iii*) to receive audit notes and returns, required

* Rai Bahadur S. N. Sahay and Mr. Roy think this would be justified only if Government were to contribute substantially to the share capital of the Bank.

from the central banks under statutory rule, should be exercised by a specially constituted committee of the bank which may be called its Finance Committee as distinguished from its Working Committee. It should consist of six directors, two from the central bank representatives, two from the individual and guarantee shareholders and two from the nominated and *ex-officio* element, of whom the Registrar must always be one. This committee should meet from time to time when occasion requires. It will be the duty of this committee to see that the Provincial Bank does not use its extensive powers to promote its own special interests to the injury of the central banks. We would also place under this committee as far as possible the effective control of the inspectorate, so as to diminish the risk of influence by the institutions it is required to inspect.

134. *Financial problems of the Bank. Share capital.*—There are a number of problems which the Provincial Bank is called upon to solve at the present moment. Of these the first is the question of its share capital. It has been raised partly by guarantors' shares and partly by individual shares but the major portion has been gradually built up under the rule which requires central banks to invest in the Provincial Bank shares 50 per cent of their reserve or 20 per cent of their paid-up capital, whichever be less. In actual practice the latter is almost invariably less.

The paid-up capital of the central banks themselves is constantly growing under the rule which requires the societies to invest a fixed percentage of their loans from the central banks in their shares. To the extent that these shares are not bought out of the actual reserves of the borrowing banks and societies there is an element of fiction about these investments in the shares of the financing banks. If a *minus* bank buys shares of the Provincial Bank out of money advanced by it or a *minus* primary society acts similarly in relation to a central bank, it really means that these shares do not represent new capital but book transactions.

But an examination of the present position leads us to the conclusion that this is not a serious weakness, since all but a few central banks hold reserves in excess of one-fifth of their paid-up capital. We merely recommend that the position should be watched.

The further question is, whether it is desirable to continue the arrangement by which ordinary shares held by central banks carry a contingent liability of one and a half times the amount paid up. We think that this liability is one which it might have been well to avoid when the Provincial Bank was founded, but it is extremely difficult to devise any satisfactory way of getting rid of it now. No plan that we have been able to think of is free from objections either on the ground of equity or of departure from banking practice. If

an unobjectionable plan can be found we would welcome it, in order to minimise inter-locking.

At the moment the Provincial Bank has no anxiety about keeping up its present proportion (which varies from one-eighth to one-tenth) of owned capital to borrowed capital, and consequently there is no immediate need to consider the question of raising more capital from individuals. But should a substantial debenture issue be made, this question may come to the front. The majority of us think that there would be no objection to a moderate use of this resource, so long as the representation of individual shareholders on the directorate is limited by the by-laws to prevent it reaching or approaching a controlling interest, and that this safeguard is a good one, since the Registrar can veto changes in by-laws. Mr. Roy, as Managing Director of the Bank, prefers to reserve his opinion. Rai Bahadur Shyam Nandan Sahay fears that the course would before long lead to the bank ceasing to be co-operative.

135. *Borrowings of the Provincial Bank.*—We think the deposit rates of the bank are generally suitable though its borrowing policy has been somewhat spasmodic in the past. It has resulted in excessive deposits at one time and too few deposits at another. The bank would be much benefited by developing its short-term borrowings so as to reduce its charges and increase its profits. It cannot develop much current account business in spite of its allowing 2 per cent interest on it, since it cannot lend to individuals. Since it has to maintain 100 per cent fluid resource against such accounts, it is doubtful whether the business is profitable. It is, however, beneficial inasmuch as it brings the bank in touch with wealthy clients. Its savings bank deposit business no doubt is more profitable.

136. *Discounting co-operative paper.*—The most fruitful and cheapest way, however, of raising short-term finance, would be to discount co-operative paper with the Imperial Bank or the proposed Reserve Bank. It would thus be possible to liquify some of the large frozen assets of central banks and primary societies. But before this can be done with any degree of success, or done at all, it is essential that the long-term business of these institutions should be entirely separated from their short-term "crop" business, so as to give a complete guarantee to these financial irrigation channels that their flowing water will not turn into ice in the polar regions of co-operative finance. If the Provincial Bank is to act as an intermediary between central banks and the general money-market with any success, it will itself have to shed its own long-term business in order to inspire confidence. This business has, it seems likely, cost it the little contact it had with the outside money-market in the shape of a cash credit of Rs. 3 lakhs from the Imperial Bank of India against the pronotes of central banks. We therefore recommend that it should not

float debentures, except as a temporary measure, to meet the present long-term commitments of the movement, until they are taken over by separate land mortgage banks and a separate Provincial Land Mortgage Corporation.

137. *More business for Provincial Bank. Branches at Cuttack and Jamshedpur.*—Meanwhile the Provincial Bank may raise the additional deposits it may need in the near future, by exploiting untapped areas or areas where surplus money is available rather than by raising its rate for fixed deposits all round. It should not, however, compete with existing co-operative institutions except in places where there is enough money for both types of institutions and where there is already a branch of the Imperial Bank. We invite the attention of the Provincial Bank to Cuttack and Jamshedpur as possible centres where these conditions exist. The bank should carefully consider the question whether branches for the collection of deposits could be started at these places. To minimize expenses, they should run only as book branches and keep all their cash with the local branches of the Imperial Bank. While there would be no objection to these branches acting as disbursing and collecting centres for the central banks in Orissa and Chota Nagpur Divisions, which feel some inconvenience due to distance in dealing with the Provincial Bank, all loan applications of these banks should be sanctioned from the headquarters at Patna.

138. *Lending rates, margin and profits.*—The bank lends money to central banks at 6 per cent but the small portion which it has indirectly advanced to some *minus* central banks for the purchase of its own shares pays really only 4 per cent, when the dividend on these shares is 8 per cent. The bank does not lend to individuals except against their fixed deposits, more with a view to attract deposits, than to increase its business. The loan policy of the bank should be used, more than is done at present, in enforcing sound banking methods on the central banks.

The margin between the lending and borrowing rates of the bank is small. It has been greatly reduced as a result of a reduction within recent years of its lending rate. It has kept an adequate general reserve and a special reserve against depreciation of Government securities, but its reserve for bad debts, in view of the general depression, requires to be strengthened. Its profits amount now to about a lakh a year out of which it has distributed for some time a dividend of 6 per cent with a bonus of 2 per cent more, and a bonus of one month's pay to the staff. We suggest that the time has come when the bank should consider the advisability of reducing its rate of dividend in order to work up to the 10 per cent provision for bad debts we have recommended in Chapter VI,

CHAPTER VIII.

Central Banks.

139. *Present position of central banks.*—There are at present 67 central banks in the province. Their position in the movement has always been of great importance owing to the fact that some of them were started earlier than the Provincial Bank and some even before all but a few of their affiliated primary societies. It has been further strengthened by the almost complete dependence of these societies on them for their finance and their independence of the Provincial Bank except when they need its help.

Having no trained bankers on the staff or on the directorate, almost uninfluenced by the affiliated societies, controlled but lightly by the department and the Provincial Bank, many of them have enjoyed an undesirable amount of freedom* which is neither justified by co-operative theory nor by actual results. It must be checked at once where necessary, otherwise it may endanger the whole movement. It would be far too much, of course, to say that the department has nothing approaching control over them. The Registrar has power to arrange for their inspection and audit. He licenses their staff, recommends their loan applications and, in the last resort, can deregister them. Armed with the prestige which Government officers still enjoy in this province, Assistant Registrars of the capacity, tact and judgment, needed to fill the role of guide, philosopher and friend, can do a good deal by persuasion, even if it has no *force majeur* behind it. No doubt after a certain interval of time, the movement was expected to stand on its own legs. We do not wish to abandon this ideal of an autonomous, self-adjusting and self-controlled organization, and we would like to see it realized as soon as possible. But where a central bank pursues a course of action, in spite of protests, which cannot commend itself to sensible co-operators, we think that there should be effective means of pulling it up, before a disaster occurs, which may seriously affect the credit, moral and financial, of the whole movement. At the same time the object of all our proposals is so to arrange the relations of the different members of the movement to each other that sound finance may be promoted and essential reforms should come from within rather than from without. The relations which we think the central banks should on these considerations bear to the primary societies on one hand and the Provincial Bank on the other have already been described in Chapters IV, VI and VII and need not be discussed again.

* Rai Bahadur S. N. Sahay considers that the mere freedom enjoyed by the central banks has not brought about any results detrimental to the movement.

140. *The size and area of a central bank.*—At present there is roughly one central bank for each subdivision, though there are some subdivisions which have more than one bank. In the beginning, when communications were difficult and the lorry had not begun to make its way to the remoter parts of the country, it was considered desirable to have as small an area of operations as possible in order to ensure efficient supervision and control. Later central banks were started rather on considerations of administrative symmetry than on a considered judgment of the size best suited for efficiency and economy. The result has been that some of the existing banks are at present too small for economical working and suffer from a want of local managing ability and from an excessive burden of overhead charges. This is clear from the following table showing the number and business of central banks in different provinces in India :—

—	No. of central banks.	No. of their affiliated societies.	Loans.		Central banks deposit.	
			From Provincial Bank.	Government.	Societies.	Individuals.
			Rs.	Rs.	Rs.	Rs.
Madras, 1929-30.	31	12,923	1,16,52,000	Nil	81,04,901	3,53,01,000
Bombay, 1929.	19	3,824	13,68,000	Nil	26,70,000	1,91,71,000
Bengal, 1928-29.	112	17,019	93,50,000	Nil	4,39,000	2,26,28,000
Punjab, 1930.	47	15,538	40,90,000	Nil	25,72,000	4,83,84,000
Central Provinces, 1930.	34	3,955	15,01,000	979	33,28,000	1,44,24,000
Bihar and Orissa.	67	9,158	39,66,000	32,000	3,39,000	1,49,62,000

—	Reserve funds and other reserves.	Working capital.	Book profit.	Cost of management.	Share capital paid-up.
	Rs.	Rs.	Rs.	Rs.	Rs.
Madras, 1929-30.	28,13,000	6,35,26,000	13,33,000	4,21,000	55,54,000
Bombay, 1929.	4,41,000	2,65,58,000	3,89,000	2,50,000	29,05,000
Bengal, 1928-29.	22,74,000	3,92,76,000	8,34,000	5,74,000	45,83,000
Punjab, 1930.	26,41,000	6,05,77,000	7,70,000	3,31,000	28,87,000
Central Provinces, 1930.	28,31,000	2,40,55,000	3,17,000	1,95,000	19,68,000
Bihar and Orissa.	15,08,000	2,32,25,000	5,43,000	6,82,000	24,16,000

In Bihar and Orissa the average number of societies in each central bank is 130 against 150—200 societies in Bengal, Bombay and Central Provinces, 300 in the Punjab and 500 in Madras. In all other provinces, except Bengal, the working capital of societies affiliated to each central bank is more than double the working capital of societies in this province. The number of members per affiliated society in Bihar and Orissa is also small. The cost of management as well as the margin between borrowing and lending rates of central banks in this province are in consequence the highest in the whole of India. The Indian Central Banking Committee recommend " fairly large areas ", and the foreign experts, associated with it, a district, for the operations of central banks. The Bengal Banking Committee has also recommended for Bengal, where, too, the ideal of one central bank at least for one subdivision seems to have been followed, that no central bank should be split up before the number of affiliated societies reaches 300, and even then no new central bank should be formed until a sufficient number of men of intelligence, influence and knowledge of co-operation can be found in the locality. On the other hand, at most subdivisional headquarters sufficient ability is to be found for a well-run central bank, and though the saying " the nearer the church the further from God ", may apply to primary societies, we doubt if it would justify the experiment of trying to finance from district headquarters societies situated in the remoter parts of subdivisions. Indeed a fairly recent experiment of this kind in the Singhbhum district is strong evidence to the contrary. Certainly as long as most society panches have to attend at the banks headquarters before they can grant to their members the smallest loan, we have to take distance into account very seriously.

On the whole, then, whatever advantages might have accrued, if the movement had been initially concentrated in fewer centres, we are not inclined to support any general revision of the areas over which central banks should operate. We prefer to rely on expansion, however gradual, to make their business more economical in management charges.

Though we are not in favour of an active policy of amalgamation, advantage might be taken of the existence of weak and moribund banks which have no chance of functioning actively to amalgamate their business to that of a neighbouring bank, perhaps treating the amalgamated bank as a branch. The possibility of doing this in specific cases might be specially borne in mind, if and when land mortgage banks are started to take over long-term business. With central banks confined to short and medium term loan business and largely relieved of the duties of supervision and non-credit development, it may become easier to effect amalgamations.

141. *Constitution of central banks.*—The most striking thing about the composition of central banks is the predominance of the professional element in spite of the general practice prevailing in all the three types of central banks of allotting to society shareholders 50 per cent or more than 50 per cent representation on their directorates. This is to some extent inevitable as long as the societies can seldom produce men with the requisite knowledge and ability to manage the policy and accounts of a bank kept in a foreign script and language. This disjunction between the urban and the rural element will always exist as long as the countryside remains uneducated and ignorant. It is therefore not possible for some time to come to eliminate altogether the professional or the urbanized element from the constitution of central banks. It exists as preference shareholders in central banks of the Nawadah type, as individual shareholders in banking unions of the Rohika type and as guarantors in unions of the latest type which have been recently started in Chota Nagpur; and everywhere, it performs a useful function. It secures deposits, supervises societies and supplies organizing ability.

142. *Need of a balancing element on the directorate.*—This dualism in the constitution of central banks has resulted in a certain conflict of interests—the conflict of borrowers and lenders, of urban and rural classes, of preference shareholders and society shareholders—which we think in the interests of the movement should be resolved. This cannot be done by removing either element without reducing the bank to insolvency or converting it into a *mahajani* concern. We are particularly anxious that the urban element should not become too strong. It is already stronger than is strictly desirable.

In some banks an element has entered the directorate, that is not genuinely interested in co-operation, but is still wielding a great power and influence not at all commensurate with its stake in the movement. There is a fear of its ousting sincere but simple workers in the movement.

To check any such encroachment we recommend that the ordinary shareholders element in the directorate of central banks should, where it is half, be increased to two-thirds of the elected portion of the directorate and that the minimum qualification for being elected as a preference director should be the possession of fully paid-up shares worth Rs. 100.

We do not, however, wish the banks to be dominated by the borrowing element to such an extent as to jeopardize their solvency. There is need of an element on the directorate of each central bank to preserve a proper balance between the urban depositing and the rural borrowing elements. It might supply the banking knowledge or at least general business experience, so sadly lacking in some banks, and safeguard certain general interests of the public and the movement which neither preference

nor ordinary shareholders may be interested enough to protect. We think this balancing element should be as small as possible and should be partly nominated by Government. We see no advantage in having it co-opted by the elected members. It should preferably consist of 2 to 3 persons, two in those banks where a revenue officer—Collector or Subdivisional Officer, is already an *ex-officio* member and three everywhere else. Of the three, one should be a large depositor if possible elected by the body of depositors and another either an influential worker who is temperamentally disinclined to face the trouble and worry of an election, or a non-official selected for his banking or business knowledge. The third person should invariably be a revenue official, preferably the Subdivisional Officer.* As a further precaution against the domination of the borrowers in the direction of a central bank, we heartily approve of the rule recently adopted by most central banks that serious default to any co-operative society should be an absolute disqualification for election as a director of a central bank.

143 *Development and Finance sub-committees.*—The entire executive business of the board is at present carried out by a working committee. We recommend that this committee should in future consist of not more than 10 members and be split into two sub-committees—a Development sub-committee with the constitution and functions described for it in Chapter XI, and a Finance sub-committee dealing purely with financial matters—the two meeting together to discuss matters common to both. The Development sub-committee should have the power to co-opt other members inside or outside the board interested in development work but those would not be members of the working committee of the bank.. The Finance sub-committee should preferably consist of not more than five directors of whom one at least should be drawn from each of the nominated, preference and ordinary sections of the board. The Finance sub-committee should have the power to sanction loans, accept deposits and generally carry out all financial transactions subject to the general control of the Board of Directors. The board itself, without a reference to the general meeting of shareholders should have the power to change the borrowing and lending rates from time to time in accordance with the financial policy of the Provincial Bank.

144. *Staff of central bank.*—One thing which struck us forcibly during our inspection of central banks was that the staff engaged in most cases was in excess of requirements, expensive for the task assigned to it and not sufficiently trained for its technical duties. The duties of the different officers are not always clearly defined and there is some overlapping of functions and obstruction of business owing to the pre-occupations of the busy professional

* Rai Bahadur S. N. Sahay prefers only an *ex-officio* revenue officer and an elected representative of depositors.

gentlemen who constitute the honorary staff. The chairman and deputy chairman are busy officials or non-officials unable to attend to details and routine work. The main part of the work devolves on the honorary secretary who is generally a practising lawyer and as such unable, in spite of the best intentions, to attend to the bank's work except in his brief leisure outside court hours. He is supposed to supervise the entire work of the outdoor and indoor staff, carry on correspondence, sign all cheques above Rs. 200, arrange for deposits, go through loan applications and attend to a vast amount of miscellaneous matters concerning the operations of a bank with a working capital which is often of more than Rs. 5 lakhs. If he does attend to all this work conscientiously he does more than what an honorary worker can be expected to do, while, if he delegates most of it to the paid staff, there is a divorce of power from responsibility which sooner or later leads to inefficiency and disaster. To some extent the difficulty is met by appointing other directors joint and assistant honorary secretaries. But it has been urged before us that panches of a primary society are sometimes kept waiting a whole day, until the honorary secretary returns from court or some other equally important engagement to sign the cheques and papers on which payments can be made. We do not know what happens to such cheques issued after banking hours but we can conjecture that the inconvenience caused to the staff and to the clients must be serious.

145. *Unsuitable designations.*—We think part of the misconception of duties and overlapping of functions arises from the use of unsuitable designations for different officers of a central bank. Basing our remarks on the titles in use in the Provincial Bank, we found that the person who performs functions analogous to those of the honorary managing director of the Provincial Bank is called honorary secretary, and because he is called secretary, performs many of the functions of the paid secretary of the Provincial Bank, i.e., takes over some of the indoor functions of the manager of his bank. Again this manager, who has both indoor and outdoor duties, is found more outside than inside the bank, and his proper work is divided between the senior bank clerk and the honorary secretary. The larger banks which can afford the luxury of specialization have one or more men for outdoor and one almost entirely for indoor work, but continue to call all of them managers. All this is very confusing. Although these arrangements and this terminology may have been appropriate in the past, we can now only regard them as obsolete.

146. *New designations and duties.*—We recommend that the duties, position and powers of the various classes of officers should be clearly defined in the rules of business of each central bank. As a preliminary to this definition, we suggest that in the bigger banks,

say those having a working capital of more than Rs. 5 lakhs or which can afford to have a separate indoor manager, the honorary secretary should be called honorary managing director and the indoor manager should be called secretary, on the analogy of the designations in use in the Provincial Bank, and invested with corresponding powers which should be expressly laid down. The field or outdoor manager in such banks should be designated " bank inspector," his duty being to inspect the work of the " banking supervisors " we have proposed in Chapter XI. The word " manager " should continue to be used but exclusively reserved for a paid executive head who does both outdoor and indoor work for the smaller banks. His position and powers, *vis-a-vis* the honorary secretary, should be improved and clearly defined, especially as regards indoor work. The honorary secretary should in future be designated " honorary managing director ". In view of the frequent absence of the manager on field duty and his inferior status the powers of a managing director of a small bank may well be somewhat larger than those of a managing director of a larger central bank. But such banks would be well advised to have competent accountants to attend to indoor work in the unavoidable absence and preoccupations of their official superiors. Central bank secretaries should be trained bankers and have approximately the same or only slightly less status and emoluments than the inspectors of the Provincial Bank proposed in Chapter XI. The managers of the small banks and the bank inspectors of the large banks should also be trained as recommended in Chapter XII. The bank inspectors should report on loan applications and take their orders from the Finance Committee or directorate through the secretary.

147. *Other indoor staff.*—We shall describe in Chapter XI the way in which the remaining field staff of a central bank should be organized and paid. We have proposed that the Development staff should be entirely separated from what we call the banking staff proper and placed under the control of a Charge Committee and the supervision of the Development sub-committee of the central bank. The banking staff relieved of their present development duties will be engaged on cheaper terms and continue to be solely controlled by the bank.

The indoor staff consisting of bank clerks and accountants should be recruited on much the same terms as at present, but receive a better training and have better qualifications as suggested in Chapter XII. It would be advisable if a special committee of experienced workers in the movement drew up a standard of central bank establishment. We suggest something on these lines. Leaving aside banks which have only recently been started, whose working capital has not yet reached one lakh, every bank should have a manager, an accountant and a cashier. As the working

capital rises extra clerks may be added, and at something about the five lakhs limit, the manager should be confined to field work and become a " banking inspector " and a paid secretary appointed. Still larger banks will want a second " banking inspector " and no doubt more clerks.

All employees of a central bank should be licensed by the Governor of the Federation as at present. Secretaries and managers of banks should be allowed to be present at meetings of the Board of Directors to explain proposals.

148. *Finance of central banks. Share capital.*—We have already discussed in Chapters IV, VI and VII the financial relations of central bank with the Provincial Bank and primary societies and the general policy to be pursued in matters affecting their deposits, loans, bad debts, reserve, fluid resources and their expense ratio. Here we shall only deal with topics which have not been dealt with elsewhere. The most important of these is the question of share capital. The original capital of the banks was small, but it is steadily increasing under the rule which fixes the maximum, which a society can borrow from a central bank, at ten times the face value of the shares, which it holds in the central bank. We have no exact figures of the amount of shares held by primary societies in central banks. But an examination of eight banks shows that about 90 per cent of the paid-up amount is derived from the primary societies, or roughly Rs. 21½ lakhs out of a little more than Rs. 24 lakhs. It is generally alleged that most of this is subscribed by the primary societies out of the loans received by them, and this is really drawn from the working capital of the central banks themselves. No doubt this practice occurs, and it is to be condemned. But assuming, which is very nearly the actual fact, that the only clients of the central banks are the agricultural societies, we find that these have accumulated reserves of about Rs. 32 lakhs, and this must be either invested in shares of the central bank or placed with them in deposit, or out on loan to members. Deposits only amount to Rs. 3½ lakhs, and there is thus an ample margin for the purchase of shares in the central banks from reserve, taking the primary societies as a whole, though, no doubt, a considerable number of primary societies do adopt the bad practice of paying for shares out of borrowed instead of saved capital. It is difficult to suggest a wholly effective remedy for this. But a considerable improvement could be made, if central banks declined to increase the maximum borrowing limit of any society that had not in the previous year made a profit.

149. *Refund of share money.*—It is doubtful whether the limited right of a central bank to refund its shares permitted by model by-laws 15 and 16 is in the interest of sound banking. In England, no registered society which has any withdrawable share

capital can carry on the business of banking as that will amount to lowering the security of depositors. Presumably the Co-operative Societies Act does not exempt co-operative banks from ordinary banking custom or usage. The proper practice is to hold the shares at the risk of the society under liquidation until they can be sold to another society, and then and only then pay in their value to the liquidator.

150. *Dividends on shares.*—We found that higher dividends are being paid by most banks to individual than to ordinary (i.e., society) shareholders on the ground that while the ordinary shareholders get the benefit of cheap loans, individual shareholders get nothing except the dividends on their shares, which should be considerable in order to attract workers to the movement. There was some justification for this arrangement when the movement was in its infancy, but we think the time has come for all shareholders to be treated alike.

151. *Reduction of rates.*—We agree with the Townsend (Madras) Co-operative Committee and the Central Banking Enquiry Committee that societies should get a concession in the rate of interest charged to them, up to the extent to which their reserve fund is placed in deposit account with the central bank. Up to this amount, the rate should not be more than 2 per cent above the bank's deposit rate. Any reduction in the lending rate of the Provincial Bank should, as soon as possible, be passed on by central banks to societies, by way of rebate, and not absorbed in their own management charges.

CHAPTER IX.

Land mortgage banks.

152. *Scope of the chapter.*—We have already in Chapter VI stated our conclusions on the action necessary to remedy the defects that arise from the mixture of long and short-term business throughout the credit institutions of the movement. We have to set out in detail the reasons on which we base those conclusions.

153. *The views of the Registrars' Conferences and of the Royal Commission on Agriculture.*—It has been universally recognized by competent opinion that to combine in one institution the business of short and long-term lending to the same clientele, and to attempt to carry on such business mainly on deposits of short period drawn from the investing public is to court disaster. With a view to remove this serious defect in the co-operative financial organization in India, it was suggested that separate institutions or at least separate departments in the existing institutions should be brought into being to finance the long-term needs of the agriculturists. The problem was first tackled by the Council of Registrars held in Bombay in January 1926, which finally resolved with the concurrence of leading non-official co-operators in favour of land mortgage banks based on co-operative principles. This resolution was accepted by the Royal Commission on Agriculture, who elaborated the scheme. It was reviewed along with these elaborations by the Conference of Registrars of 1928 who resolved as follows :—

(1) " The Conference entirely endorses the resolution passed by the Conference of Registrars in 1926 in favour of the establishment of land mortgage banks."

(2) " The Conference is of opinion that land mortgage banks should be established under the provisions of the Co-operative Acts now in force in British India."

(3) " A nominee of Government is necessary on the managing committee of a primary land mortgage bank, except where the interests of Government and debenture holders are sufficiently safeguarded by the appointment of a trustee acceptable to Government."

(4) " Government assistance to land mortgage banks in the form of subscriptions to their debentures is recommended while

these banks are in their early stages and assistance is also recommended in the form of loans."

(5) " The guarantee of interest on the debentures of land mortgage banks is the most suitable form in which assistance can be given by Government."

(6) " The debentures of land mortgage banks, the interest on which is guaranteed by Government, should be added to the list of trustee securities under the Indian Trusts Act, 1882."

(7) " The Conference is of opinion that land mortgage banks should be organized only after the most careful preliminary enquiry and that their constitution and working should be as simple as is consistent with adequate safeguards."

154. *The views of the Banking Committees.*—The question of starting separate land mortgage banks was next considered by all the Provincial Banking Enquiry Committees and by the Central Banking Enquiry Committee and by the foreign experts associated with that committee after the provincial reports had been published. All the Provincial Committees except the Bihar and Orissa and Bengal Committees reported in favour of separate co-operative land mortgage banks for agriculturists. The Bihar and Orissa Committee, while emphasizing the need for commercial land mortgage banks for zamindars, declared itself against separate land mortgage banks for the raiyats. The ground taken was that the co-operative organization " already functions, not only as an agricultural bank granting the credit needed to grow the crop, *but also as a land mortgage bank* giving loans for repayment of debts, for redemption and even for purchase of land, and for improvements ", and that it would be undesirable to split either the central banks or the primary societies in twain since the divided allegiance of members to two primary societies or of primary societies to two central banks would create grave difficulties. While against the organization of separate co-operative land mortgage banks, it however emphasized the need of organizing the existing central banks into two separate departments—one dealing exclusively with the long-term business and the other with the rest, keeping separate registers and ready to report when required on the state of each class. This opinion, as well as the opinion of the Bengal Committee, was before the Indian Central Banking Enquiry Committee and the foreign experts associated with it when they considered this question, and they both came to the conclusion that it was absolutely necessary to make a clean cut between the two kinds of business in the interest of sound financial management by starting separate co-operative land mortgage banks. The foreign experts condemned the existing practice of the Punjab, Bombay and Madras Provincial Co-operative Banks in issuing debentures for

financing the long-term capital required by the co-operative land mortgage banks, which have already been started in those provinces. The Central Committee, while agreeing in principle with this view, considered that the practice might be continued until a provincial land mortgage corporation could be established.

155. *Detailed views of the Central Banking Committee and the foreign experts.*—In view of the importance of this question for the purpose of our enquiry it is necessary to state at length the opinions of the Central Banking Committee and the foreign experts. The Central Banking Committee wrote as follows :—

" Opinion on co-operative credit has now crystallized round the idea that these two varieties of credit cannot be supplied by the same type of co-operative organization and that two different types of them are indispensable. Almost all the Provincial Committees, and almost every competent authority on co-operative credit in India, are agreed that the existing primary societies, central banks and provincial banks, by reason of the character of their resources and other obvious limitations from a banking point of view, can supply only the short and intermediate credit. They are also agreed that the type of co-operative organization most suited to provide long-term rural credit is the co-operative land mortgage bank. The first type of institutions raises credit mainly by deposits and loans, and the second type by debenture issue, the share capital in both cases being only a small portion of the working capital."

The foreign experts say, " Co-operative credit societies are decidedly the most suitable credit agencies for financing the current needs of the agriculturists. This has been the most useful and successful work of the co-operative movement in many European countries and especially so in Germany. The special structure of the co-operative organization based on self-help enables it to provide relatively cheap short-term working capital."

* * * * * *

" It is necessary for the Indian co-operative credit movement to draw its fullest attention to the development of short-term credits, i.e., the supply of working capital. Business on a larger scale in long-term credits makes it impossible for the society to finance current credit needs and to repay promptly deposits when required."

* * * * * *

" Long-term credit to agriculture for land improvement, purchase of land, etc., requires special institutions."

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" Co-operative credit societies which collect deposits are not suitable agencies for the supply of long-term mortgage credits. It is therefore wrong to expect that co-operative credit societies can discharge to a great extent the old debts of the agriculturists due to the money-lenders."

* * * * * *

" It is only through efficient mortgage banks that the problem of discharging the Indian agriculturists' old debts will be solved and only under the above-mentioned condition that the agricultural production is or can be made profitable."

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They further say, " We are against co-operative apex banks' advancing loans to land mortgage banks for long-term mortgage credit. We cannot approve the issue of mortgage debentures as is done in Bombay, Madras and the Punjab."

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In a fuller note on mortgage banks the foreign experts visualized the relationship of the proposed co-operative land mortgage bank with the ordinary central co-operative bank as follows :—

" The relation between land mortgage banks and short-term credit banks should be a very close one. It is indeed essential not only to save overlapping but also administrative and supervision expenses. We suggest that the district land bank should be housed, where possible, in the same building as the central bank of the area. Careful consideration should be given to the advisability of combining the management of these banks under one head with, of course, the necessary assistance. It would be possible to secure a higher standard of management. If the man at the top can be depended on, then efficiency and security can be relied on. The central bank and the land bank would have the further benefit of having the advantage of knowledge in the possession of the respective banks about the financial position and integrity of their clients. The transfer of money from one bank to another must, of course, be strictly prohibited."

156. *The present position in Bihar and Orissa.*—Two years ago, when the Provincial Banking Committee, of which two of us were members, submitted their report, the extent, to which the loanable funds were locked up in long-term commitments, was not so great as it is now. Nor was the evidence anything like so clear that the management of some of the central banks is incapable of exercising the very careful control that mixed banking requires. Further it was not apparent to the Banking Committee that the majority of

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the primary societies have not been trained and cannot within a reasonably short time be trained to keep the accounts much less the management of short and long-term lending distinct.

157. *Experience of schemes similar to that advocated by the Provincial Banking Committee.*—In the light of these facts and the very weighty opinions set forth above, we feel obliged to review the position. The Bihar and Orissa Banking Enquiry Committee's scheme for separating the accounts of short and long-term business was in effect advocated both by the King Committee in the Central Provinces in 1922 and by the Townsend Committee in Madras in 1928, though the latter also advocated the formation of land mortgage banks. Since then in both provinces the Banking Committee have pressed for land mortgage banks. The King Committee's recommendation was accepted by Government and had thus been working for some six years when the Central Provinces Banking Committee reported. In Madras we find that Mr. V. R. Pantulu writing in the " Madras Journal of Co-operation " in January 1931, describes a situation closely parallel to that we have to consider here. He states that the Townsend Committee's recommendation was similar to that of our own Banking Committee but that it failed to work in practice. In February 1927 our own Registrar issued instructions to the banks for the separation of long and short-term loans, but these were interpreted by several banks merely as an authority to extend *kists* with little discrimination. The present Registrar after consultation with a conference representative of the Provincial and central banks introduced in January 1931 much more elaborate rules for financing primary societies, based on the recommendations of the Provincial Banking Committee and the experience of Burma as given in the Calvert report. These rules dealt with the future grant of loans, and were supplemented in March 1931 by a circular, in which central banks and primary societies were urged to take up the classification of their outstanding loans as an essential preliminary to the receipt from the Provincial Bank directly or indirectly of any long-term capital that might be forthcoming by way of issue of debentures or otherwise. That these instructions, if followed, will do something to remedy the situation we have no doubt. But we fear that they may not go far enough to relieve it altogether, even if much more energy is displayed, than we have reason to believe has been displayed in the last year.

158. *Difficulties of land mortgage banking.*—Land mortgage banking is, even under the favourable conditions which exist in European countries and other parts of India, a difficult business, and the difficulty is enhanced, in the peculiar circumstances of Bihar and Orissa, where there are considerable restrictions on free transferability. The primary societies are incapable of managing

it themselves, with the result that their power of initiative is destroyed by an attempt to manage it for them by the central banks. It is too much to expect the simple members of a primary society to distinguish in a practical manner between the short-term and long-term loans of the same members and to master the intricate technicalities involved in the latter class of business, viz., estimating the landed assets, investigating their title, appraising their value, fixing their borrowing limits and the *kists* for repayment. A burden is placed on the primary society which it is unable to bear, and the whole work is, as we know, done by the inspecting clerks and central bank directors. Nor is it done even by this agency very efficiently as figures of awards, liquidations and realizations show. To continue the present system, or, by insisting on the separation of accounts within the existing primary society, further to complicate its work, will defeat the main object of most of our other recommendations, viz., vitalizing the life of the primary society, the base on which the entire movement rests. With the greater part of the business of the primary societies and the central banks of long-term character, necessitating close control, the taking of mortgages, and the weary, expensive and often unprofitable task of foreclosing them, co-operation will ere long become indistinguishable from *mahajani*. Expenses both of primary societies and central banks will inevitably increase, costs of audit, " supervision ", training and " development " will go up, since the growing difficulties on the financial side will naturally be attributed to " insufficient training and supervision " or the " incurable dishonesty of borrowers ". Co-operative credit will remain dear, since it will be impossible to induce any commercial bank like the Imperial Bank of India or even the proposed Reserve Bank to provide cheap money to the movement by discounting the " co-operative paper " of banks doing " mixed banking " a major portion of whose assets remains always frozen. It may be that, unless a determined effort is made to remedy the situation, cautious private investors will withdraw their support, and be followed with disconcerting rapidity by the rest.

159. *Necessity for separate land mortgage banks.*—We think the proper policy to follow is to start land mortgage banks to take over as soon as possible those long-term commitments of the existing central banks, for which the security is reasonably good. *These banks should deal direct with the borrower and not through the intermediary of the village primary societies*, though we expect that the knowledge already gained through those societies of the repaying capacity and character of members will be most useful. They will advance money to the individual, to enable him to repay outstanding loans of a long-term character to his primary society, which will ordinarily use this money to pay off loans of the same character due to the central bank. As this process goes through,

the charge on the assets of the individual, which is now in favour of the primary society, will be transferred to the land mortgage bank, which will fix with the borrower the terms of repayment and the interest rate. If, as we contemplate, the new land mortgage bank will usually be situated in the same building with the central bank, it will ordinarily be possible to carry out the whole transaction by paying the money direct from the former to the latter in the presence of the individual borrower and the representatives of the primary society. *But the greatest possible care must be taken that all parties thoroughly understand the transaction and that clear records of it are made in the appropriate books.*

160. *Clients of land mortgage banks.*—It would, of course, be for the directorate of the land mortgage bank to decide, what commitments of primary societies they are prepared to take over. They would have to hit the happy mean between extreme caution and rashness. It is obvious that some commitments are outside their scope, and for the better determination of these it is imperatively necessary to get ahead with a work, which in any case central banks will have to perform. This consists, first, of separating out those individual members of societies affiliated to them, who are wilful defaulters; and, second, of the further division of the residue into two classes—those who have no chance of improving their repaying capacity even if the term of repayment was greatly extended, and those who could repay if they got such a concession. The last sub-class would be the suitable clients for the land mortgage bank, and it would be for the central bank to do the best it could about the others.

161. *Effects on primary societies.*—It is necessary to consider the results of such a policy on the position of the primary societies and the central banks. The former would be relieved of some of their indebtedness to their central bank, thereby reducing their working capital without encroaching on the reserves and share capital which constitutes the " owned " portion of it. They would further be relieved of the frozen assets of debts due from *all* defaulters except those whose repaying capacity cannot be improved by any reasonable revision of *kists* which the proposed land mortgage banks can with safety offer. Such members (we have no means of estimating their number but believe they will be few) who will not make suitable clients of land mortgage banks, are still more unsuitable clients for co-operative societies and will have to be ejected in any case. On the whole, the existing societies will be greatly benefited by this transfer of the bulk of their present defaulters to the land mortgage banks and the retention of their first class clients who borrow for short-terms and do not default in normal circumstances. Nor will the value of the total corpus of unlimited liability in the society be greatly diminished by reason of the prior mortgages held by the land mortgage bank against

some members. For the dues of the society against such members will have been paid off, which otherwise would have stood against the same assets and have been ultimately realizable from them. Even in the present circumstances, there is no bar to the members of primary societies mortgaging their lands to outsiders and paying the bank's dues. We believe that, if even after the transfer of their long-term loan to land mortgage banks members want to continue their connection with primary societies as borrowers, two-thirds of their assets would be sufficient for realizing from them their short-term loans and giving full play to the principle of unlimited liability, if legal proceedings have at all to be instituted. Of course the primary society in that case will have to sell up the member's properties and pay the prior mortgage debt of the land mortgage bank, but that after all can never be more than one-third of the total value of the member's assets. Where two-thirds of the assets is not sufficient cover, steps would no doubt be taken by primary societies to reduce the borrowing limits.

162. *Effects on central banks.*—The central bank would be immediately relieved of a large part of its troubles about collection by the influx of money paid to them on account of primary societies (or really the members of those societies) by the land mortgage bank. It will find its business decreased in volume, but greatly improved in safety. It will, no doubt, have at first to reduce its working capital, either by repaying loans taken from the Provincial Bank or by discouraging deposits. This will at once put up the proportion of its owned capital to total working capital, and so the percentage of profit earned on the working capital will increase, though the total book profit will be diminished by the reduction of the working capital. It will probably have to reduce its staff somewhat till its business expands again, but this it can do without trouble by passing on members of the staff to the land mortgage bank, or perhaps by sharing their services. The inconveniences, such as they are, will be temporary, and by repayment of loans taken from the Provincial Bank it will improve its own credit, besides solving much of the present difficulties of that institution, arising from overdues. Those banks that have special burdens incurred by rash ventures in financing other business besides agricultural credit societies will retain them, but they will have more time to build up the profits required to write off their losses. Where the influx of money, which will in fact be advance repayment of principal loan, is not immediately required for repayments of borrowings from the Provincial Bank or from depositors, it would be put aside as a separately invested fund. That investment might suitably be made in deposit with the Provincial Bank, arranged to meet a considered policy of repayment of such borrowings. We trust that the money repaid to the depositors will flow back into the movement in the shape of purchase of debentures.

163. *How the difficulties of the transition period may be met.*—At the same time we fully realize that the re-adjustment of both primary societies and central banks to the new conditions will not be an easy task. During the process the primary societies should endeavour to strengthen their position by enrolling new solvent members requiring short-term loans, while the central banks should endeavour to start new societies, in the areas already developed, to be composed of such members. Further a strong effort should be made to increase repaying capacity by the adoption of agricultural improvements.

164. *Finance of land mortgage banks.*—It has so far been assumed that the land mortgage banks will have the money to enable them to take over a large part of the existing long-term commitments of the primary societies. It has to be explained how that money is to be raised. We agree with the general trend of informed opinion that reliance must be placed only on share capital and debentures. There seems to be no good reason for inviting outside share capital, but every borrower should be obliged to take out shares equal to 5 per cent of his loan. Rai Bahadur Shyamnandan Sahay would only demand one per cent from persons, whose liability had been transferred from an existing primary society, since they have already paid 10 per cent on the loan in shares to the primary society for the same liability. The main part of the working capital of the bank will have to be raised by debentures. These should in the first instance be raised by the Provincial Bank, though the central bank concerned should endeavour to get them taken up locally. As soon as the scheme passes its experimental stage a provincial land mortgage corporation should be started to take over this business from the Provincial Bank, if and when the trustees on behalf of the debenture holders consent. In the interim the Provincial Bank should have a strong control over the land mortgage banks. We trust that Government will be able to help to launch the scheme by taking up some of the debentures at a lower rate of interest, than that at which they are available for the general public, as the Madras Government has done. Government should also guarantee the debenture interest (but not the principal) for the whole period of their currency.

165. *Constitution of land mortgage banks.*—The next point is the constitution of the directorate. In view of the proposed assistance Government should nominate in the first instance half of the members of the small board required to control the operations of the land mortgage bank, the other half being elected by the directorate of the central bank concerned. As soon, however, as the business is in train and borrowers have paid their shares, one-third of the directorate should be elected by them, the proportions of Government and central bank representatives being

reduced to one-third each. The Government nominees should include persons representing the interests of the debenture holders and of the Provincial Bank or later the Provincial Land Mortgage Corporation.

166. *Rate of lending.*—We may assume, as a basis of calculation that debentures can be raised, at 7 per cent, though we hope that provided there is a Government guarantee a lower rate will be found practicable. The money so raised could be passed on to the land mortgage bank at 7½ per cent, which could lend at 10½ per cent. (In Madras the margin is only 2 per cent, but the difficulty of ultimately realizing by sale of the land itself is probably less there than in this province.) Though we would be glad to see it substantially reduced, this rate is distinctly below that at which nearly all individual members get their money from the primary societies and they will also get the benefit of much longer periods for repayment of the principal. We think that those periods should be 5, 10, 15 or 20 years according to the repaying capacity of the borrower, and the debentures should be issued to correspond as closely as possible with the loans out on various periods with a margin for safety. Loans should be limited to a definite maximum; Rs. 5,000 has been suggested by the Central Banking Enquiry Committee. We are inclined to think that they should also be limited to one-third (not one-half as suggested by that Committee) of the value of the mortgaged security.

167. *Survey by a special officer.*—We propose that this scheme be tried out in the first instance in conjunction with a few central banks, preferably those, which have recently found themselves in moderate difficulty owing to falling off of collections. Its success will depend largely on the goodwill and good sense of the central bank directorate, and an earnest desire on the part of all, including the members of primary societies, to put things straight. We think that it will be impossible for the Registrar to spare sufficient time to supervise adequately what will be a delicate operation, in which serious mistakes must not be made. He should have the temporary assistance of an officer of special ability, who should begin by studying at first hand the working of land mortgage banks in other provinces.

168. *Financial individuality of land mortgage banks.*—**It is essential that the financial individuality and responsibility of the land mortgage bank should be kept quite distinct from those of the central bank.** But we expect that at the beginning they would occupy the same building, and that there should be free interchange of reports, and possibly a sharing of some of the staff.

169. *Scope of the scheme.*—The scheme is primarily devised to take over existing commitments of the co-operative movement.

We expect, however, that, if it succeeds in that object, it will proceed to undertake the much larger business of enabling the agriculturist generally to redeem his land and to liquidate his old debts, to make improvements of a substantial character, and possibly in special cases extend his operations by purchase of more land. Without land mortgage banks we do not see how any of these objects can be safely pursued. No doubt land mortgage banks will experience many of the difficulties, which face central banks in their long-term business, and which are inherent in any organization which supplies this kind of credit to the rural population. But it will be far better equipped to meet those difficulties, especially as it will not have to operate through the intermediary of a primary society.

170. *Legal impediments.*—The chief obstacle to the success of the scheme will be a continuance of the uncertainty about the value of mortgaged security arising out of the existing tenancy laws. We strongly urge that this uncertainty should be removed, and have given our views in detail in Chapter IV. But even under the existing law land mortgage banks could be started in Bihar and the Orissa Coast districts without serious risk, though the legal difficulties of sale must necessarily raise the rate of interest throughout. In Chota Nagpur and the Santal Parganas there is no hope of success, until conditions in those areas permit the relaxation or removal of restrictions on alienation. Here we can only advocate very strict adherence to the principles laid down in the Registrar's circulars of January and March 1931. We should explain that the scheme proposed above does not contemplate provision for the redemption of the debts of the class of substantial landlords.

171. *Action for the immediate future.*—We look to the creation of land mortgage banks for a relief from the growing embarrassments of the present financial system and for an ultimate solution of the problem of the indebtedness of the agriculturist to the *mahajan*. But, as we have already indicated in Chapter VI, something must be done to strengthen the position until the mortgage banks are in working order. In the first place central banks and primary societies must classify their commitments, and keep themselves back from increasing those of long-term. In the second place the Provincial Bank, with the assistance of Government, and the central banks must secure more long period finance as a backing for the present long-term commitments.

PART IV.

AUDIT, SUPERVISION AND DEVELOPMENT.

CHAPTER X.

Audit.

172. *Present audit arrangements.*—The history of co-operative audit in this province has already been given in Chapter II. Audit, like registration and liquidation, is a statutory function of the Registrar and, as such, its control in most other provinces in India is vested entirely in him. An important departure was however made in this province in 1916 when the Bihar and Orissa Co-operative Federation was started and the control of audit was nominally entrusted to it. This step, though possibly in advance of the actual conditions then prevailing in the province, was justified by the practice of European countries, which is based upon the conception of a co-operative movement as a self-governing and self-controlled organization and as such qualified and able to control its own audit arrangements. While this was the ideal to which the new arrangements pointed, in practice all power over the audit staff was under by-law no. 19 of the Federation concentrated in the hands of the Registrar in his capacity as its *ex-officio* Governor. It is not absolutely clear with what objects in view this somewhat anomalous arrangement was made. But from the note of Mr. Collins, the author of the scheme, written in 1915 and appended to the Lyall Committee Report, it seems that it was intended (*i*) to secure the realization of a large part of the cost of audit from the societies of all kinds, (*ii*) to reassure the investing public by providing that the ultimate control of audit should remain in the hands of an officer of Government, (*iii*) to form an organization which would be capable of undertaking other duties required for the development of the co-operative movement, and (*iv*) ultimately to enable it to dispense with the greater part of the control and financial assistance, which it required during its early years. If we have rightly stated the objects, we may say that the first three have on the whole been attained, while the last is yet an ideal of the distant future. The Registrar, as Governor, still retains complete control over the appointment, promotion and punishment of auditors of all kinds, though the Federation, in its plenary session, sanctions the budget for audit, fixes the contributions payable by societies and settles

the rates of pay. The office of the Federation keeps the accounts of the contributions. Government still subsidizes audit to a considerable extent.

173. *The strength of the audit staff.*—According to the budget for 1931, the present audit staff maintained by the Federation consists of 10 assistant auditors who audit central banks and important limited liability societies and 110 local auditors for the audit of other primary societies. Six selected men from among the local auditors, known as junior auditors, also conduct the newly introduced two-monthly audit of central banks and important limited liability societies. They are all paid out of Federation funds to which Government was expected in 1931 to contribute Rs. 48,651 for the audit of unlimited societies and Rs. 16,672 for the audit of central limited societies. Inspection of audit work is provided by the test audit of 5 per cent of primary societies by assistant auditors, and of another 5 per cent by the Assistant Registrars. A test audit of the central banks and limited societies is conducted by the Chief Auditor, who is the responsible audit adviser of the Registrar and is a whole-time Government servant. The Registrar in his gubernatorial capacity exercises his control over the entire audit staff through the Chief Auditor and the Assistant Registrars, with the help of the Secretary and office staff of the Federation.

174. *Working of the system.*—Many witnesses have urged before us that this system, which is peculiar to this province and is probably found nowhere else, works fairly satisfactorily, though some, including the Chief Auditor, are of opinion that it is somewhat expensive and the quality of audit leaves something to be desired. Others again have criticized it as placing auditors under the influence, if not control, however indirect, of the institutions audited by them. They have therefore recommended, in the interests of the purity and independence of audit, the transfer of the control over them to the direct authority of the Registrar. We attach great weight to the last argument as we believe, and our belief is shared by a large body of non-official co-operators, that the entire safety of the movement depends upon fearless and competent audit. It is, however, still a question for consideration whether this is better attained under Government control. The Indian Central Banking Committee and the Foreign Experts associated with it have recommended still greater and more real democratic control over audit than exists in this province in the shape of district audit unions elected by their affiliated central banks and societies.

175. *Indian Banking Committee scheme unsuitable.*—We have great respect for views coming from such a quarter but in deciding whether audit should be controlled by Government or a democratic

body, we have to weigh the conflicting claims of the co-operative ideals and the safety of the money locked up in co-operative institutions. We have also to enquire whether a system of control suited to western countries and some other parts of India with more fully developed self-governing and business traditions will not break down in Bihar and Orissa. We do not think conditions in this province are yet ripe for the transfer of control over local auditors, much less over junior and assistant auditors, to district audit unions of the type contemplated by the Central Banking Committee. It might be difficult for the representatives of central banks and societies on such a union to resist the temptation of finding fault with their financial fault finders. The mere fear of such criticism may impair the quality of the work of auditors and may bring their audit into suspicion, which we are most anxious to avoid in the credit interests of the movement. A time may come when co-operative societies may have learnt to appreciate the value of independent audit so much that the control over it may be safely entrusted to the district charge committees, we propose in Chapter XI, but we think that is still far off.

176. *Government control over assistant auditors.*—It has been urged by the Chief Auditor in his evidence before us, that some assistant auditors have in the past felt nervousness in exposing the defects of some central banks having representatives on the Council of the Federation, in the belief that their interests will be adversely affected by such action. We are of opinion that such apprehensions are unfounded. But the fact that they are even now felt makes us fear that they might be more fully justified if the control of the Federation Council over auditors were to become more effective. We are deeply solicitous for the good name of the central banks and are anxious to see their credit improve in the money-market. For this purpose, we think it essential that the independence of their audit should be secured beyond all possibility of doubt. We recommend that the assistant auditors and junior auditors should be placed under the direct control of the Chief Auditor and the Registrar and made whole-time Government servants. We discuss the financial bearing of this recommendation in Chapter XIII.

177. *Federation control over local auditors.*—The Federation thus relieved of its nominal control over assistant auditors might without danger be given more real powers, than it has at present, over the local auditors. There is scarcely any room for undue influence over local auditors, for, the central banks are at least as much interested in the efficient audit of primary societies as any member of the department. We propose, then, that the Registrar, as Governor of the Federation, should refer all except urgent cases relating to control of local auditors to a small committee of the Federation Council. At present the Registrar should reserve his right to reject the advice of this committee, but with experience it

might be proper to leave the decision finally to such a committee, though this would entail an amendment of section 17 of the Act.

178. *Outside commercial audit.*—There is also another alternative to control of assistant auditors by the Federation which we have not examined so far, viz., to get central banks and limited liability societies audited by professional auditors which will make the audit independent both of Government as well as of central banks. It was urged before us that audit by professional auditors, while being more efficient and calculated to inspire more confidence in the outside money-market, could be obtained at much cheaper terms than those charged by the Federation. We had no opportunity of examining this question very closely, but we are convinced that this form of audit is utterly unsuitable for the simple needs of primary societies, and doubt if it be the best even for central banks and limited liability societies. We are bound to take into consideration the peculiar nature of co-operative credit which, unlike commercial credit, is controlled credit requiring a great deal of supervision by the department. Further the cost of co-operative audit must be distributed over the whole movement, not only according to the benefit received but according to the capacity to pay. In view of these considerations we do not think that it will be desirable or financially practicable to introduce commercial audit, even if it were proved to be equally efficient and cheaper, which the few experiments already made do not indicate that it would be. There may, however, be cases of individual hardship where the audit fees fixed by the Federation may be extremely disproportionate to the actual expense or to the benefit received. The Tisco societies at Jamshedpur are a case in point. In such cases the Registrar, as Governor, should have the discretion either to charge lower rates or allow such societies to be audited by professional auditors though he should consult the Council of the Federation before deciding. We are wholly in favour of the present arrangement under which the Provincial Bank is audited every six months by the Chief Auditor and annually by chartered auditors completely independent of the bank and Government.

179. *Adequacy and quality of the audit staff.*—We think the present number of auditors maintained by the Federation at the rate of one local auditor for 110 societies is adequate, though the Lyall Committee suggested a standard of one auditor for 100 societies. The Chief Auditor in his evidence before us stated that, if redundant questions relating properly to supervision were cut out of the audit note form, local auditors could manage 125 societies. It has been proposed to us that the Chief Auditor should have a spare assistant auditor for general duties and that a new class of audit inspectors should be created and attached to the Assistant Registrars to relieve them of their heavy work of reading

the audit notes of societies. In view of financial considerations and the reorganization of the Assistant Registrars we have proposed in Chapter XVI, we do not support these suggestions. While the present staff is adequate in numbers we are not convinced that it is sufficiently qualified for its work. The rates of pay given to all classes of auditors are generous and compare favourably with the rates paid for similar or even more arduous kinds of work. The technical qualifications at present demanded of them do not justify the rates of pay offered. Assistant auditors get the same emoluments as professors in private colleges (150—10—250) and local auditors get more than graduate teachers in high schools (60—4—100—bar—110—5—125), while the qualifications of the former are not more than a B. A. Pass or at the most a B. A. Honours degree, and of the latter the passing of Matriculation or I. A. examination at most. In view of the arduous and responsible nature of their duties, we do not wish to lower these emoluments of assistant auditors very greatly. But we agree with the recent Retrenchment Committee of the Federation that the rate of increment is too rapid, and the starting pay too high, and we would accept their scheme of Rs. 125—$\frac{10}{2}$—150—10—200.

We should like to see a higher standard of *technical* qualification demanded from them in the future. Some of the present men also require to be retrained. We are glad that steps are being taken to provide this necessary training for them in the refresher classes at the Sabour and Cuttack training institutes, but we do not think that this will suffice for assistant auditors. We recommend that all the existing assistant auditors should be required to obtain the Bombay Government Diploma in Co-operative Accountancy. Leave facilities may be given to them for study and examination and if they do not qualify themselves in this way within a reasonable period, their increments should be stopped and, if necessary, they should be discharged from service altogether. Junior auditors, who now conduct the two-monthly audit of central banks, should also possess the same qualification before they are promoted from the ranks of local auditors. Our object in making these recommendations is to ensure that no central bank or important limited liability society is audited by any auditor not qualified up to a certain objective standard recognized by the money-market.

180. *Cost of audit.*—For local auditors the scale of pay is certainly excessive. In 1923 it stood at Rs. 55—$\frac{5}{2}$—82$\frac{1}{2}$ with two posts in a selection grade, continuing on the same increment to Rs. 110, and it has since been raised to the present scale. The Retrenchment Committee has suggested Rs. 50—$\frac{5}{2}$—80—bar—$\frac{5}{2}$—100. In view of the present prices compared with those of 1923 and before, we think this is quite sufficient, especially as good men will have chances of selection as junior auditors, and the best of

promotion to assistant auditors. For junior auditors we propose in place of the continuation of the scale to Rs. 125, which is the Retrenchment Committee's proposal, a special monthly allowance of Rs. 20, but the matter would have to be further considered, if, as we suggest, they are to be made Government servants.

181. *Government contribution to cost of audit.*—The Federation has recently approached Government for an increase of the contribution towards audit. According to the Federation budget for 1931 Government contributed about Rs. 65 out of a total estimated cost of the staff employed amounting to Rs. 2,13. We do not admit the responsibility of Government for paying for the whole cost of audit, though we are aware that some provincial Governments do so pay. The question is then, to what extent a contribution should be made. The main concern of Government is that the major institutions in which the public invest largely should be adequately audited. Though the statutory duty of all kinds of society is placed on the Registrar, yet the audit of the primary societies is chiefly the concern of their financing agencies, the central banks, on whom, and not to any large extent on the investing public, undetected financial abuses will recoil. At the same time in order to be assured that the central banks are not wholly neglectful of the audit of their primary societies, it is necessary that there should be some degree of super-audit. This is already supplied by the test-audits of Assistant Registrars and assistant auditors. These considerations point to the placing on Government the entire cost of these officers, and of the junior auditors, who do the preliminary audit of central banks, and assigning to the Federation, the whole cost of the original audit of primary societies. As a consequence of this plan, any increase of audit charges, resulting from an increase of such societies, will fall on the central bank responsible for expanding its clientele, save in so far as it is passed on to the primary societies as direct levies or included in the interest rate. Presumably the central bank will be able to bear the cost from profits on its increased business. On this plan it will not pay for its own audit, a position which no ordinary financial institution enjoys, and which, we trust, will not be regarded as a permanent right.

We indicate below in Chapter XIII that we propose that Government should divert the savings here proposed in audit contribution to other needs of the Federation.

182. *Improvement of audit methods.*—The Registrar has recently devoted great attention to the improvement of audit methods in central banks and societies, principally to secure that audit is taken up as soon as possible after the close of the period covered by it, and that prompt attention is paid to the audit notes. A very important change is the introduction of the two-monthly system of preliminary audit of central banks by junior auditors.

It is too early to speak of the success of these changes, especially of the two-monthly audit, as they have been only recently introduced, but we believe they are steps in the right direction. The only observation we have to make is that it is not sufficient that a copy of an audit note should be merely shown to the Provincial Bank but it should be preserved by it for ready reference. We understand that the Registrar has very recently taken steps to simplify the audit note and to remove all redundant questions, leaving it to convey a clear picture of the financial condition of the society audited.

We believe that the recommendations we have made in other chapters about strengthening the control of the Provincial Bank over central banks and the power to supersede a bank will provide sufficient means to enforce the prompt rectification of defects. In this connection, we wish to emphasize that the audit of any co-operative bank or society should be constructive as well as critical.

183. *Audit notes of primary societies.*—The remarks we have made about audit of central banks apply with equal, if not greater, force to the audit of primary societies on which the whole superstructure of the movement rests. We have examined some of these audit notes and found that the work done is more mechanical than helpful and is of not much use to the societies even with the help of a bare vernacular summary, because it is prepared in English, or to the financing bank since the directors have no time to look into them and get the defects noted rectified. We recommend that the note should be shorn of its redundant questions and simplified, and should, where there is no serious obstacle in the way, be prepared in the script and vernacular current in the locality, so that members may have an opportunity of reading it.* If possible, it should be prepared in triplicate and a copy should be supplied to the Assistant Registrar, to the financing bank and to the primary society. To expedite the disposal of these audit notes by central banks, we recommend that the present practice of some banks of referring them to specially appointed directors should be more generally and more faithfully followed.

It will also expedite work, if instead of engaging in lengthy correspondence, the Assistant Registrar when he visits a central bank settled up the action to be taken up in consultation with the director concerned.

* Khan Bahadur Saghirul Haq thinks that the summary in the vernacular at present left by the local auditor in the village is sufficient for the needs of the members.

CHAPTER XI.

Development, supervision and control.

184. *Future policy of the movement.*—It is clear from what has gone before that the co-operative movement, like most things in the world at present, is passing through a time of grave difficulty. It is not, therefore, a very opportune occasion for preparing a scheme on which the movement should develop over a considerable period of time. For the past four years the watch word has rightly been " consolidation ", and the time is not yet when it should be changed to " expansion." If, however, as we firmly believe, the movement has in Bihar and Orissa, as it has been proved to have in other countries, and in other parts of India, immense potentialities for improving the condition of the bulk of the population, it cannot be allowed to stagnate. And it thus devolves upon us to put forward what appear to us sound lines of future development, even if that development cannot be expected to ensue with the rapidity, which will satisfy the more ardent co-operators.

185. *A scheme of rural development.*—It will be convenient to consider in the first place a definite scheme, which has been placed before us, for rural development throughout the province. The author of the scheme, Mr. N. K. Roy, the Deputy Registrar in charge of the Chota Nagpur and Orissa divisions, has advocated for some years the establishment of " whole village " societies, embracing all aspects of village life. We understand that attempts have been made to organize this kind of society in ten centres, nine in the Chota Nagpur and Orissa divisions and one in the Santal Parganas district. We were able to see two such centres, Peloul and Masmanno, both in Ranchi district. It is distinctly cheering to see a village hall constructed, a school maintained, a well dug, and a serviceable road made by the willing efforts of co-operators and to find other improvements, for example, manure stored in pits instead of being left in the open to breed insect pests. We should like to see these experiments extended widely throughout the province, and are inclined to believe that it is on these lines, rather than on the lines of the small society almost entirely concerned with credit, that the development of co-operation is most likely to be fruitful. But we are obliged to express our view that these societies are still in the trial stage, and that immediate and rapid expansion according to a set programme is

fraught with very considerable risk. And it is this kind of expansion that the scheme contemplates, as the following summary of it shows.

186. *Details of the scheme.*—It contemplates the immediate employment of 20 paid organizers, to whom will be added in each successive year 50 more for 5 years, and then 30 in the next year, making 300 in all. Each organizer is expected to found 20 rural reconstruction societies each year, consisting on the average of 100 families each. By this staff, it is calculated that in 16 years 77,400 such societies will be organized, and that practically the entire ground of 84,000 villages will be covered. If, as the scheme suggests, the average population of a village is 100 families consisting of 5 persons, some 38¾ million persons will be brought into the co-operative fold, against a figure of the 1921 Census of 32½ millions for the rural population. The scheme, thus, does not fail for want of comprehensiveness. The organizers are to be paid Rs. 80 a month rising by increments spread over 16 years to Rs. 250. They are to be provided with a peon and equipped with tents and furniture. On this basis it is calculated that the cost of organizing each society will be Rs. 129. It is proposed that the cost should be met by a loan from Government, spread over 17 years, amounting in all to Rs. 1,07,00,000, the annual provision starting with something under half a lakh and gradually rising in the 17th year to nearly Rs. 10 lakhs. The suggested interest is 6 per cent, though a hint is thrown out that properly no interest should be charged. There are several alternative schemes of repayment, which differ according to whether interest or principal is repaid first, whether a period of three years should be allowed before repayments begin, and whether the total period before repayment is complete should be 15, 16, 17 or 18 years. Broadly speaking, the scheme is that each society should contribute annually a sum of Rs. 14 in order to repay in a period of 15 to 18 years the cost (Rs. 129) of its own organization. It is evident that some definite source of income must be forthcoming to meet this charge. It is, therefore, assumed that each society will engage in credit business to the extent of Rs. 3,000, on which a net income of Rs. 3-2-0 per cent will be earned, or Rs. 93-14-0 in all. From this sum the charge of Rs. 14 a year for repayment of the Government loan for organization will be met, as well as the cost of managing the society itself. It is further expected that if the repayment of the loan is deferred till the fourth year of the society's existence, reserve funds will be accumulated, the additional interest on which, calculated at 12½ per cent, will materially increase the income of the society.

187. *Financial defects of the scheme.*—It is first desirable to see how far the estimated profit from the standard loan of Rs. 3,000 per society is likely to yield what it is expected to do. We have

examined the figures for unlimited liability—agricultural credit societies for the years 1928, 1929 and 1930. They give the following results :—

	1928.	1929.	1930.
	Trs.	Trs.	Trs.
Owned capital at beginning of year ..	32,00	37,00	42,00
Assumed profit at 15⅝ per cent.	5,00	5,78	6,56
Borrowed capital at beginning of year ..	1,72,00	1,97,00	1,97,00
Assumed profit on margin of 3⅛ per cent. ..	5,38	6,16	6,16
Assumed profit	10,38	11,94	12,72
Actual net profit	3,96	4,04	4,38
Management costs	1,60	1,41	1,35
Actual gross profit	5,56	5,45	5,73

Hence, in the three years, against a gross profit, calculated on the assumptions made in the scheme, of Trs. 35,04 including Trs. 17,18 derived from owned capital, the societies have actually realized a gross profit of Trs. 16,74, of which Trs. 4,36 has been consumed in management charges.

Lest it might be said that the years taken are unfavourable, the four previous years' figures have also been examined. The result is as follows :—

Year.	Assumed profits.	Actual gross profits.	Percentage of actual on assumed.
	Trs.	Trs.	
1924	5,47	3,58	65
1925	6,41	4,36	68
1926	7,78	4,93	63
1927	9,45	5,69	60
1928	10,38	5,56	54
1929	11,94	5,45	47
1930	12,72	5,73	45
Total ..	64,15	35,30	55

Management charges come on the average to about $\frac{2}{3}$ per cent on working capital. On a capital of Rs. 3,000, the society would thus have to find Rs. 20 a year, besides Rs. 14 for the amortisation of the Government loan. From the figures given above it seems unlikely that in actual fact the gross profit of the year for a society working on borrowed capital of Rs. 3,000 would be more than Rs. 50 against Rs. 93-2-0 assumed in the scheme, while it can hardly be expected that owned capital will earn more than 8 per cent. These rates fit the figures of last seven years fairly well, very much better than the figures of the scheme, which presupposes that all money will be fully employed throughout the year, and all interest punctually paid. On this basis the margin for accumulation of owned capital will be only Rs. 16 for each society. Assuming that this was all put away each year and earned interest at 8 per cent, the capital accumulated by the 77,400 societies, visualized by the scheme as existing at the end of 16 years, would be only Rs. $1\frac{1}{4}$ crores, while Rs. $23\frac{1}{4}$ crores would be the working capital needed by them. Thus at the end of the period of 16 years, there would still be Rs. 22 crores of outside money in the societies, even though they might have paid back the Government loan. In fact the scheme requires fixed outside capital rising from Rs. 12 lakhs in its first year to Rs. $8\frac{1}{2}$ crores in its eighth and to Rs. 22 crores in its sixteenth. We see very little prospect of sums of that magnitude being subscribed by the investing public within this period, and any serious departure from the forecast would cut the ground from under the financial basis of the scheme.

188. *Other defects.*—We have thus been obliged to conclude that the scheme is too optimistic in the matter of profits from the credit part of the organization. It is, further, by no means clear from whom or for what periods the societies organized on these new lines will raise the large outside capital required, nor for what purposes and for what periods loans will be issued to members from that capital. Nor is it anywhere discussed what changes in and expansion of the existing organization of the Federation and the department will be required to make them capable of controlling this vast accession to the co-operative movement or of guiding the 300 organizers, who, the scheme postulates, will be employed in the seventh year. The scheme was placed in outline before the last Congress. It was commended as a practical means of sound development and it was resolved that the Federation should apply to Government for the necessary loan. The details of the loan and its manner of repayment were left to a committee of five. This committee (or rather three of its members for two were unable to attend), sat for two days, and proceeded to draft a letter for the signature of the Registrar to be accompanied with some elaborate schedules dealing with the finance of the scheme. These documents have been placed before us by the author of the scheme in his written evidence.

189. *Scheme impracticable.*—The scheme, in the present financial position both of the movement itself and of the province, is wholly impracticable. In throwing cold water upon it, we do not wish to belittle the enthusiasm and labour expended upon it. Nor do we intend to let the damping effect extinguish the struggling spark of the underlying idea, the organization of primary societies of the whole village type, that aim at bringing home to the rural population that there is something more in co-operation than relatively cheap loans. But we cannot bring ourselves to commend a plan which involves borrowing a crore from Government and Rs. 22 crores from the general public, on the basis of experimental societies in ten villages, which whatever their other merits do not appear to have yet made any headway at all in the matter of finance, and are still feeling their way in other matters. The only course we could possibly recommend is that something on the lines proposed might be tried in a favourable area, under the direction of the charge committee, whose functions we explain below. If it is tried, it should be on a small scale to begin with.

190. *Organization for development in Bihar and Orissa and other provinces.*—Sound development, both in the sense of bringing more members into the co-operative fold and in the sense of leading existing members to a nearer approach to co-operative ideals, must rest on careful organization at the start and patient and watchful supervision thereafter. We have already indicated that a system, which leaves organization entirely in the hands of honorary organizers attached to a particular central bank and expects supervision to be carried on by a staff that is also responsible to the central bank for the satisfactory conduct of its purely credit functions, has not, in general, proved successful in the past and is unlikely to do so in the future. Various alternatives to this system have been suggested and most of them have been tried in other provinces. In the Punjab, development (in which term we include supervision of established societies on their non-credit side), has been entrusted to the official agency of inspectors on pay of Rs. 100 to Rs. 250, of whom there were in 1930 as many as 125 for about 20,000 societies. The standard proposed by the Registrar in that year was 150 societies for each inspector. They work under the Assistant Registrars, about six for each, and there is besides a staff of 528 sub-inspectors paid by the Punjab Co-operative Union, which corresponds to our Federation. There are also three educational inspectors paid by Government, and three others paid by the Union. In the United Provinces since the Oakden Committee reported the same system has been partially introduced. In Madras when the Townsend Committee reported the supervisors combined credit and non-credit functions. They were employed by supervising unions, which consist of 25 or more societies, and these, though they do not guarantee their member-societies, recommend to the central

banks the applications for loans. The unions were again constituent elements of district federations, which, as a rule, have representatives of the central banks in them. There were also a number of senior and junior inspectors entertained by Government, but at the time of reporting these had all been absorbed into the audit staff, and none were available for supervision. The general framework for supervision has, we understand, been left untouched, but there are now 26 senior inspectors, roughly one for every 600 societies, who are employed on that work, besides the audit staff. Bombay follows much the same system, though the supervising unions cover somewhat wider areas and include a nominee of the department and of the financing bank as well as the representatives of the societies. The Royal Commission on Agriculture, with the important dissent of Mr. Calvert, recommended the Madras-Bombay system. The Bihar and Orissa system leaves out both the close common interest of the comparatively small number of societies forming a union and the guidance of the official staff. It relies on the individual central banks alone to provide the stimulus in co-operative effort, which the individual society may and usually does lack.

The Punjab system, which is being tentatively imitated in the United Provinces, involves an expenditure, which Bihar and Orissa cannot at present meet, and has in our view the defect of dissociating to a large extent the non-officials from the most important form of co-operative work. No doubt the Provincial Union comes in as the master of the primary supervising staff, but it is difficult to see how a body of that kind can effectively control such a scattered staff. The Madras-Bombay system postulates a high degree of zeal and ability in the supervising unions, which our own experience of guarantee unions leads us to doubt would be at present forthcoming here. The Townsend Committee itself is somewhat guarded in its commendations of their work in Madras.

191. *Different opinions on development in the province.*—We have read with great interest the report of the special committee appointed by the Federation Congress to consider in particular the future arrangements for development. We have also examined with care the various suggestions put forward in written evidence, and discussed them with those gentlemen, who appeared before us. The schools of thought consist (*i*) of those who rely greatly on the control of central banks over the development in their own area; (*ii*) of those who distrust that control as cramping the growth of responsibility in the primary societies; (*iii*) of those who expect efficiency only from a state service; and (*iv*) of those who doubt whether what efficiency is thus secured is not dearly bought by the stunting of non-official effort.

192. *Our own plan. Banking Supervisors.*—It is impossible to devise any system, which will be free from all objections, or

which will fully meet all criticisms that may be brought to bear upon it. We proceed to set out our own plan which aims, first, at separating the primary field staff employed at present on banking and development functions, second, at placing the control of the latter with a body that is neither too closely concerned with banking nor too far removed from the societies to see the work of its subordinates, and, third, at associating in that controlling body the official as well as the non-official workers in the movement. We propose that the central banks should continue to employ, for the credit side, men who may be called " banking supervisors " to see that the societies keep their books properly, to report to the central banks on applications for loans and to stimulate payment of dues. These need not be so highly paid as the present inspecting clerks, and may be recruited from persons who have at least passed the middle English or middle vernacular standard, and have received a training in co-operative principles and elementary banking. We expect to get suitable men on pay of Rs. 20—1—40 with a fixed travelling allowance of Rs. 10. One man could look after 40 to 60 societies, according to the state of development reached by them. He should live within his charge, coming to the headquarters of the central bank only once a month. The best of them, after special training, might be promoted to the post of bank clerk, accountant or cashier. In small banks the single bank manager could tour sufficiently to inspect and supplement the work of these men. In larger banks one or more " banking inspectors " on pay of Rs. 60—2—100 and travelling allowance of Rs. 25 would be needed. These should have charge of three or possibly four " banking supervisors." In such banks the bank secretary would only tour very exceptionally. The banking field staff should, like the bank headquarters staff, be under the control of the central bank, ordinarily acting through a Finance Sub-Committee. There should, however, be an ultimate control in the hands of the Federation, whose Governor will license the staff, and who, through the Service Committee which we propose in Chapter XIII, will have the power to arrange transfers, when amicable agreement between banks fails.

193. *Development Supervisors.*—For the non-credit side, which we decide to call " development ", i.e., for training and instruction of panchayats and members in co-operation, for the improvement of the material and moral condition of the members, for the development of non-credit activities, and for the organization of new societies, we think there should be a more highly qualified and more thoroughly trained staff of " development supervisors ". The pay should be Rs. 50—1—70 with travelling allowance of Rs. 20. Each development supervisor should be in charge of 30 to 40 societies. He should also be in special charge of about five out of this number close to his headquarters village with a view to intensive development of them and to establishing

them as rural reconstruction societies. After five years or perhaps less at that headquarters he should be moved to another village to do the same kind of work there, and so on. He will also be expected to organize new societies, as far as general policy permits of expansion. These development supervisors will be under the immediate supervision of a Development Sub-Committee of the central bank, on which ordinarily not more than one member of the Finance Sub-Committee should sit. The members of the Development Sub-Committee should be chosen from among directors, or other suitable local men, who are prepared to undergo some training in development work and to devote some considerable part of their leisure to seeing that the supervisors are really efficient. It would generally be desirable to have the Subdivisional Officer on the Sub-Committee, but it should not exceed five members in all. But we do not think that this will be enough, judging from past experience, and we thus recommend that for discipline including the grant of increments of pay and punishment,* as well as for posting to or transfer from a particular central bank area they should be subordinated to a small committee, operating throughout the area assigned to an Assistant Registrar's charge.

194. *Charge Committees. Development Inspectors.*—The committee should, we think, be composed of one member from each central bank, who will ordinarily be the keenest member of the Development Sub-Committee. With them will be associated the Assistant Registrar as Member-Secretary. We have given below our opinion that the Assistant Registrar should be much more concerned with the primary societies than with the central banks, and we expect that "Development" will in future be regarded as the most important part of his work. The Charge Committee will, we hope, be able to meet once a month in rotation at the headquarters of each central bank, or other convenient place in the area in which that bank operates, and will take the opportunity of seeing as much as possible of the actual work of the supervisors of the area of that bank. We would regard these Charge Committees as arms of the Federation, and think that they should be *ex-officio* delegates to the Federation Congress, and that from their members several of the members of the Federation Council should be elected. It may be considered whether proportionate grants from the development levy should not be allotted to them for administration. In any case, in order that they may have a whole-time officer (besides their Member-Secretary the Assistant Registrar), whose duty it will be to keep the development supervisors up to the mark, we think that a development-inspector on pay of Rs. 80—4—120, drawing actual travelling allowance on the scale allowed for that class of officers by Government, should be attached to each committee and paid for by the Federation.

* NOTE.—The final orders in a case where dismissal is contemplated would be passed by the Registrar-Governor.

As we have later proposed that the Assistant Registrar's charge should be 500 societies, this would mean that the inspectors would be responsible for the work of some 15 supervisors at present. We anticipate that with normal expansion of societies, a second inspector will have to be added to most charges before long. It seems to us most important that these committees should have real administration work to do, and should be small enough to do it promptly and efficiently. We have no objection to the co-option of one or two additional members, e.g., the District Officer if he is particularly interested in co-operation or an agricultural or veterinary officer. In the comparatively rare cases, where a transfer from the jurisdiction of one committee to another may be advisable, we would expect the two committees to settle the matter amicably, but in case of difference of opinion the Federation Service Committee should have power to pass final orders. Though the committees would ordinarily have nothing to do with the banking staff, it might be convenient to use them to arrange transfer of that staff from one central bank to another.

This is our plan for securing orderly and sound development of rural co-operative societies, whether as we hope, they will expand into societies for the reconstruction of the village communities as a whole, or will remain for some time to come, as they are now, more limited bodies of those, who feel the need of associating mainly for credit purposes. There is nothing to guide us in determining how rapidly the movement should or can expand, and so we do not propose to make any forecast of the organization required to meet that expansion. It seems to us enough to suggest what sort of persons, for what remuneration can effectively do the work, which is necessary to make co-operation a success.

195. *A note of dissent.*—Our colleague, Khan Bahadur Saghirul Haque, is pessimistic about the result of the formation of Charge Committees to control the field staff required for development. His experience is that central banks have in the past been too ready to recommend undeserving employees for promotion and too lenient to punish bad work. He fears that the Charge Committees, constituted mainly of the nominees of the central banks, will display the same faults. He also anticipates that it will not be found possible to secure co-ordination between one Charge Committee and another, and without such co-ordination there will be no uniformity of policy or procedure, and desirable transfers of employees from one Charge to another will be impossible. He would prefer to accept only our recommendation for the formation of a separate committee in the central banks to supervise the development field staff, and would place with the Registrar the absolute control, in matters of appointment, transfer, reward, and punishment, over that staff.

196. *Supervision and control of central banks. Control by the department.*—We have already stated that we do not regard

as desirable any serious expansion in the number of central banks. But we anticipate that the central banks will, once they have emerged from the trough of the present depression, expand their activities considerably by an accession of new societies affiliated to them. There have admittedly been in the past some serious mistakes made by the central banks, which have tended to weaken the movement. We hope that such mistakes, principally those of paying unnecessarily high rates for borrowed money and over-financing their affiliated societies, especially non-agricultural societies, will be avoided now that experience has been gained. But we think that the present position in respect of supervision and control of central banks is unsatisfactory. They are subject to the supervision of the Registrar, who gains his information of their working through his personal inspection, the inspections of the Assistant Registrars, and the reports of the auditors. In certain matters he has statutory control, but the ultimate sanction for such control is his power to cancel the registration of the bank as a co-operative society and to liquidate it. Such an extreme course is evidently undesirable, as a means of remedying minor defects, especially as it necessarily disorganizes the working of all the affiliated societies. In other matters the Registrar and his staff can only tender advice. The only other authorities that can exercise any sort of control over central banks are the Co-operative Federation and the Provincial Bank. Since both these are in essence organizations of the central banks themselves, it is reasonable that they should be in a position to enforce their views on really important matters within their proper spheres. While we recognize that several central banks conduct their business admirably and so require little outside control, others certainly do not reach such a high standard. In the sphere of departmental supervision and control we make the following suggestions. If, as we recommend later, the Assistant Registrars will be more numerous and of somewhat lower status, and the Registrar is to be assisted by at least three Deputy Registrars, we think the Assistant Registrars should have less to do with the central banks, and devote more time to the primary societies. These officers would continue to inspect the central banks, but their suggestions for improvement of their working should be scrutinized by the Deputy Registrars, who, with more experience, knowledge of affairs and training in banking and co-operative principles, would be able to advise the banks and get their advice carried out. We further think that when the Registrar finds it necessary to issue circulars to the central banks, he should distinguish clearly between *orders*, which he has a statutory right and duty to issue and enforce, and *advice*, which a particular central bank may find inapplicable in its special conditions. The latter type of circular may well be discussed by the central bank directorate with the Deputy Registrar, and, if necessary, referred back to the Registrar. We found

that some banks merely ignored such advice, while others followed it with a grumbling acquiescence instead of placing their difficulties before the Registrar.

197. *Control by the Federation.*—The degree of real control, which can be placed with the Federation, is not easy to define. But we think there should be a statutory sanction to back recovery of levies imposed by vote of the Federation Congress. Other resolutions of that body should be scrutinized by the Council, and if the Registrar is prepared to accept them, subject of course to reference to Governmnt where necessary, he should either issue a circular order, where the subject is one in which he has statutory powers, or a circular instruction indicating in both cases that the Federation has accepted the principle. We express our views on the question whether it should be obligatory for every registered co-operative society to affiliate itself to the Federation in the Chapter relating to that institution.

198. *Control by the Provincial Bank.*—We should like to see the Provincial Bank in a stronger position *vis-a-vis* the central banks. It can, at present, only bring its influence to bear on those of them, who are indebted to itself, the *minus* banks as they are called. Since changes in the financial strength of any type of bank occur with incovenient rapidity, it may well be that the seeds of serious embarrassment are sown before the bank seeks the aid of the Provincial Bank. It is then faced with the alternative of supporting a badly managed bank at the risk of its own funds and ultimately of its ability to help the movement generally, or of forcing it into liquidation at the risk of discrediting co-operation with the outside public. We think, therefore, that the Provincial Bank should have a statutory power of control over the rate at which central banks may borrow from the outside public, and it might be enacted that that rate should not, without the consent of the Provincial Bank, exceed the rate, at which the Provincial Bank is prepared to lend at that time for the same period. It is also desirable to lay down that the maximum borrowing limit of a central bank after determination in the annual general meeting, should be subject to the approval of the Provincial Bank.

199. *Inspectorate for the Provincial Bank.*—We also feel that the present arrangement, by which the Provincial Bank relies only on the information supplied through the Registrar by the Assistant Registrars, supplemented by belated audit reports, for material on which to decide its policy in regard to individual central banks, is defective. It throws too great a responsibility on the Registrar himself, who is required to decide whether or not to recommend a loan, and hampers the Provincial Bank directorate in deciding whether or not to accept the Registrar's recommendation. We think the time has come for the Provincial Bank to appoint its own inspectors, who will supply it with independent information on the

position of the central banks. For the present two such inspectors on pay of Rs. 150—200 with second class travelling allowance should suffice. They will be able among other things to advise the Provincial Bank on the question of the local rates of borrowing.

200. *Surcharge for breach of statutory injunctions.*—It is of little use laying down principles, unless there is some effective sanction behind them, and, though we rely on the good sense of the great majority of directors of central banks, yet experience shows that such faith can be misplaced. We think therefore that the personal responsibility of directors should be more clearly expressed in the Act, provision being made for a power of surcharge resting with the Registrar, subject to an appeal to Government, in case of clear breach of statutory injunctions resulting in pecuniary loss to the bank. It should be possible to enforce such surcharge, not only in the course of liquidation as already provided in the Bombay Act, but also after a statutory inquiry or inspection as the Madras Bill contemplates. We think that surcharge should be enforceable in all classes of societies.

201. *Supersession of a central bank directorate.*—Finally we think that some intermediary stage is required between normal working and liquidation. Government should, in fact, have the power to supersede the directorate of a central bank, and appoint a person to manage it with the help of an advisory body. Such supersession should only be made after a statutory enquiry conducted by a competent body, and for this purpose we suggest a committee consisting of the Registrar or his nominee, a nominee of the Provincial Bank, which will usually be the principal creditor, and a nominee of the Charge Committee, in whose area the central bank is situated. It would be open to the enquiring committee to recommend either the supersession of the bank, or its immediate liquidation, or, of course, a continuance of normal working with such improvements as may be required. We think the inspectors of the Provincial Bank would in many cases be suitable officers to manage a superseded bank.

CHAPTER XII.

Training.

202. *Importance of different kinds of training.*—In the preceding and succeeding chapters we have emphasized the need of training for removing the existing defects in the movement and ensuring its better working in the future. Continuous co-operative education, as distinguished from spasmodic propaganda, is now generally regarded as essential for the successful working of banks and societies.

Co-operative education is of different kinds according to the different classes of persons to be trained. There is first the education which introduces co-operative ideas to the persons, for whose benefit the movement was started, before they become members of primary societies, and which continues to keep those ideas freshly before them after they have joined a society. With this education may be classed the training in their simple duties required by the office-bearers of primary societies. Next there is the training designed to impart specialized technical knowledge to the employees of the Federation, banks and societies. Lastly there is the education which those who direct the movement, official and non-official, need in the art of managing and supervising co-operative institutions.

203. *History of co-operative training in Bihar and Orissa.*—It was in the second class of training that the earliest experiments were made in this province. As far back as 1916 classes were opened for training bank employees in co-operative theory, lectures being given by some officers of the department. This arrangement continued, with some intervals of quiescence, up to 1929, and a fair amount of attention was paid to the matter in the later years of the period. It was not, however, till the session of the Congress at the beginning of 1928, that the principle of regular training institutes, paid for by a special levy on societies, was accepted. In August 1929 the Sabour Training Institute was started and a similar institute teaching up to a lower standard was started a month later at Cuttack for the special benefit of Orissa. The main features of these institutions which differentiate them from the earlier classes is that they are staffed by permanent whole-time teachers employed by the Federation and not by Government, who teach systematically up to a much higher standard. The technical training of panches and secretaries of village societies had been

carried on in a spasmodic fashion by some central banks until, in 1928, regular training classes for a period of 15 days to a month were started by the propaganda officers of the Federation. These have been, however, too few and too brief to be of much use, and they are likely to be closed altogether since the Federation Development Committee Report has recommended the abolition of propaganda officers.

The co-operative education of the members of societies before and after their admission has been the concern of the organizers of such societies and of the inspecting clerks. Earnest attempts were made to stimulate co-operative spirit by the repetition or singing of a composition known as the " Twelve Main Points " but without much success. An attempt to spread general primary education as a necessary foundation for the building of a co-operative structure was made through the agency of central banks during the period from 1918 to 1929. Though as many as 430 *pathshalas* were opened in this way in the last four years of that period, the spurt has died away for want of funds and support from district boards.

The only special training given to the honorary workers has been such as a few of them have gained from the educational weeks recently organized by the Sabour Institute. For training of newly appointed officers of the department reliance has been placed on attaching them for a few months to experienced officers.

204. *Inadequacy of training.*—How inadequate the training for different classes of co-operators has been will be evident from this brief account. It is too early to say whether this inadequacy will be removed by the Federation's Sabour and Cuttack Training Institutes as they have been started only two and a half years ago and were not fully organized until about six months later. They have not had time to exert their full effect. On the whole, they have been planned on right lines and conducted as they are at present should go a long way to meet the want of a trained staff of *junior* employees of the Federation and central banks. We, however, do not think that the two institutes, with their present resources, will be able to supply the higher training which we think assistant auditors, secretaries, managers, banking and development inspectors require, to say nothing of Assistant Registrars.

205. *Sabour and Cuttack training.*—We have had the benefit of visiting both the institutes and examining their course of study and their methods of practical training. We think they are generally suitable for local auditors and inspecting clerks but fall short of the requirements of a bank clerk. We welcome the emphasis on cultivating a rural outlook implied in requiring a knowledge of practical agriculture, though we are doubtful whether

some of the students we saw had not been too far urbanized to acquire it easily. We were particularly interested in the plan, devised by Mr. Mukherjee, the Principal of the Sabour Institute, of taking the students on a march through the villages and thus giving them training and practice in co-operative propaganda. But we cannot commend the arrangement of a common course of studies for inspecting and bank clerks. The requirements of an indoor employee dealing with ledgers, accounts, etc., are different from those of a touring employee, though it is desirable that one should know something of the work of the other. The training in theoretical and practical banking seems to be defective for a bank clerk at both institutions, there being no adequate facilities for practical bank work in their rural surroundings and no teacher fully qualified to teach banking. The Chief Auditor has urged in his evidence before us that the teaching of audit at Cuttack is below the mark required for a local auditor. We have not been able to examine this point in detail but we suggest that if the defect exists it should be removed along with others mentioned above. We recommend that the two institutes should not aim at any ambitious schemes of meeting all the co-operative training needs of the province which are bound to be beyond the resources of the Federation. They should concentrate on turning out well-trained local auditors, inspecting clerks (whom we propose to separate into two classes and call banking and development supervisors) and bank clerks. The Cuttack Institute is already limited to that standard of work and it may be considered by the Federation whether the Sabour Institute should not be similarly confined. If this suggestion is accepted, it may be further considered whether for this limited purpose, a less expensive staff with more practical qualifications should not be engaged. The governing bodies, which are supposed to control these institutes, are not very well suited for that function. They include a large proportion of members, who are not likely to be able to attend except very occasionally. It would probably be better to make the principals responsible for detail, and place the control of more important matters in the hands of a central training committee of the Federation, which should contain an adequate academic element. We think it desirable to locate the Durga Prasad Institute now at Sabour either near the Veterinary College at Phulwari or near the Provincial Bank or the Federation office at Patna, where we expect many honorary workers would be ready to give evening lectures and better practical training facilities would be available, and whence the rural areas of Dinapur, Fatwa and Masaurhi central banks could be easily reached.

206. *Restriction on admissions.*—It is important that the number of admissions to the two institutes should be strictly limited, as there is a real danger that in the present stagnation of the movement they may produce more men than can be absorbed in

it. We recommend that the Service Committee of the Federation (proposed in Chapter XIII) should prepare a list every year after examining the requirements of each bank. Admission should be restricted to not more than twice the number given in this list and the quality of candidates ensured by a preliminary competitive test. Should it be found that the staff is too big for the numbers restricted in this fashion, the question of its reduction should be considered. The institutes besides giving their own diplomas should aim at some objective standard of qualifications by encouraging and preparing some of their students to try for the London Chamber of Commerce diploma examination, or examinations of similar standard.

207. *Cost of the institutes.*—The Federation spends about Rs. 28,000 every year on the two institutes. The scales of starting pay are adequate but the rates of increment are too rapid. The lecturers receive on the average about the same emoluments as professors in private colleges. Government pay an annual grant of Rs. 2,500 only for their upkeep against Rs. 20,000 paid by the Madras Government for the same purpose.

208. *Details of training required for different classes. Primary societies.*—Having described the existing facilities for training available in the province, we proceed to describe in detail the training and qualification we think each class of co-operators should have.

We begin with the members of primary societies. The difficulties of co-operative education at this stage arise largely from the prevalence of illiteracy, and a really efficient system of primary education in the villages would immensely simplify many of the problems of co-operation.

209. *A village co-operative education scheme.*—The Principal of the Sabour Co-operative Institute, Mr. B. B. Mukherjee, placed before us a scheme of village co-operative education, which deserves examination. He suggests that every central bank should set up an education committee with a paid education secretary which should organize a peripatetic co-operative school consisting of one or more trained teachers for holding classes for two months at each circle headquarters. At these the secretary and two other literate members of at least ten societies of the neighbourhood may be induced to attend by the offer of a daily fee of two annas per head. The secretary will be trained as a " village reader " and will read out to the village suitable co-operative literature prepared at the Sabour Institute for which he will be paid a monthly salary of one rupee. In this manner in ten months' time 50 societies will have been touched and the whole area of the bank would be covered in 2½ years. All that would be necessary afterwards would be to keep the village reader up to the mark and to hold refresher

classes for preventing the members from relapsing into co-operative ignorance. Adult co-operators' leagues and co-operative youth guilds should be organized to supplement this training.

210. *Practical difficulties.*—We see many practical difficulties in the scheme and are somewhat doubtful whether the village reader should be able to hold the attention of his village audience with the kind of co-operative literature likely to be supplied from Sabour. But we are still more impressed with the difficulty of finance. Mr. Mukherjee estimates the total cost of the scheme at about Rs. 1,68,200 in the first instance and he thinks it could be met by setting aside 10 per cent of the annual profits of central banks for this purpose. As there are many demands on the money of central banks and they will for some time to come require all their profits for building up an adequate " Bad Debt Fund ", we see no possibility of this sum being realized. We may note that it is 30 per cent and not 10 per cent of the profits of central banks in 1930. We think that the funds available can be more profitably used on providing the general development staff, that we have proposed in Chapter XI. We would not attempt to lay down a uniform system on which they are to carry out their duties of stimulating not only knowledge of co-operative principles but a genuine desire for village welfare in all possible forms. We expect the Charge Committees and the Development Committees of the central banks to find out what is most likely to be effective in the areas with which they are familiar. For imparting the knowledge required by panches of societies to enable them to keep their books properly, we would rely on the banking supervisors and the banking inspectors of the central banks.

211. *Training of employees of central banks.*—These employees will thus consist partly of men, who are expected to concentrate on the banking side and partly of development supervisors. For the latter we think the Sabour or Cuttack training is adequate, if it is supplemented by three months' practical work under an experienced development inspector. We anticipate that the development inspectors themselves will be mainly recruited from the best of the development supervisors, and these should be given a special advanced course before being confirmed in their appointment.

The banking staff will consist of (*i*) banking supervisors, (*ii*) bank clerks, (*iii*) banking inspectors, and (*iv*) managers or secretaries. The work of the second of these classes will be purely indoor, of the first and third purely outdoor, and of the fourth mixed. While all will require a knowledge of co-operative principles, it is still more important that they should have a sound banking training up to the particular standard, that their work demands.

It is not very necessary to " ruralise " the bank clerks for they will have no field duties. We suggest that in their case, the Sabour training should be either supplemented or entirely replaced by an examination for the commercial certificate of the Patna University or of the London Chamber of Commerce combined with a practical training as a probationer in a co-operative bank. Later on, if they wish to rise higher in the banks' service, they may take Part I of the examination for the Associate Membership of the Indian Institute of Bankers.

The manager of a second class bank who will have, as now, touring as well as indoor duties, should ordinarily be a graduate in Economics and should be trained as a banker and to some extent as a rural worker. He should pass at least Part I of the examination of the Indian Institute of Bankers, should have received three months' practical training at the Provincial Bank or a first class central bank and another training of the same duration in rural work at Sabour. Training much the same as for managers of second class banks should be given to the banking inspectors and to managers of Peoples' banks, except that for the latter no training in rural work should be required.

The secretary of a first class co-operative central bank and the inspectors of the Provincial Bank must be trained bankers in the full sense of the word. They should therefore pass both the parts of the Indian Institute of Bankers' examination and should have besides six months' practical training at the provincial or some recognized joint stock bank. The Secretary of the Provincial Bank must be not only a trained banker of the highest qualifications, but must be a man of outstanding merit. The clerks of the Provincial Bank should have at least the same qualifications as the banking clerks of central banks, while the Chief Accountant should hold the Bombay Government Accountancy Diploma.

212. *Training and qualifications of auditors.*—We have already indicated in preceding paragraphs and in Chapter X the sort of qualifications which we wish the auditors of different grades to possess and the training which they should undergo. The assistant auditors should ordinarily be graduates in Arts or Commerce of a recognized University and should in addition possess the co-operative or the ordinary accountancy diploma of the Bombay Government. The latter will be useful in the audit of limited liability societies like Peoples' banks, in which transactions in cheques and mercantile bills may be important. The nearest place of examination for the ordinary diploma is Allahabad, while for the co-operative diploma the nearest is Calcutta. Arrangements should be made with the Bombay Government Accountancy Diploma Board to recognize audit service in the Bihar and Orissa Co-operative Department as practical training for the Co-operative Diploma. The Punjab and Burma Co-operative Services have already received this privilege.

213. *Need for business training facilities in Patna.*—All these arrangements for getting co-operative employees of this province trained in centres outside it are no doubt inconvenient, but they are rendered necessary by the entire absence of commercial education facilities within its limits. The Patna University regulations provide for certificate, intermediate and degree examinations in commerce, but no college, not even the Patna College, has made any arrangements for preparing students for them. The Bachelor of Commerce degree course has a provision for the teaching of advanced audit and advanced banking, which could be modified to suit the needs of Assistant Registrars, secretaries and managers of central banks, and assistant and junior auditors. But some arrangement for teaching them will have to be made. If one or two specialists in these subjects, costing much less than what is spent on the Sabour and Cuttack institutes were attached to the Economics Department of the Patna College, all the needs of higher co-operative education as well as those of ordinary commercial training could be met. We recommend to Government and the Federation to investigate the possibilities of this idea with a view to avoid unnecessary duplication and additional trouble and expense to co-operative employees. It has been suggested by the Indian Central Banking Committee that all higher co-operative education should be imparted in a central All-India Co-operative College; but as no steps have yet been taken to bring it into existence, we do not feel it necessary to discuss how far it will be useful to this province.

The Patna University courses in Economics give enough emphasis to the teaching of the economic aspect of co-operation and the allied subject of Agriculture both for the B.A. and the M.A. examinations, there being two special papers at the latter stage. We do not think that any further provision is required. We are not in favour of including co-operation as a special subject for the Matriculation examination though possibly a short course of co-operative instruction might be given in guru training schools.

214. *Training for honorary workers.*—We think a special short course of training at Sabour and Cuttack would increase greatly the utility of the services of honorary workers. Social service and particularly co-operative service has become as much technical and specialized as any other occupation and requires preliminary preparation before yielding fruitful results. The instruction received would no doubt be supplemented by a course of reading in the growing mass of co-operative literature. We suggest that a stock of standard works should be kept at Sabour and Cuttack and at Patna (either at the Federation office or at the Provincial Bank) for being lent out on suitable terms to honorary workers.

215. *Training of Departmental staff.*—The training of Assistant Registrars should be as thorough as possible. Several of the Assistant Registrars we have come across have a very

sketchy knowledge of banking, and some of them appear to be ill-grounded in co-operative principles. Recruitment to the department has been carried out without much regard to the suitability of the officers for the work, or their genuine interest in it. We recommend that the future Assistant Registrars should be the pick of the Subordinate Provincial Executive Service and should undergo the training recommended for them in Chapter XVI. They should be required to pass during the period of their probation at least Part I of the Indian Institute of Bankers' examination or any other examination of an equivalent standard which can be taken without residence at an educational institution. The passing of Part II of the Indian Institute of Bankers' examination should be made compulsory before selection for the post of Deputy Registrar. In addition to the rural training at Sabour referred to in Chapter XVI, they should further undergo a practical training in banking for one month in the Provincial Bank and another two months in a first class central bank. The authorities controlling admission to the examinations of the Institute of Bankers should be approached to allow Assistant Registrars, recommended by the Registrar, to sit for them. At present it is restricted to members of the Institute employed in banks. We understand the All-India Association of Provincial Co-operative Banks have already taken steps to move these authorities to widen the scope of their examinations with a view to provide for the needs of co-operative workers. All gazetted officers of the Co-operative Department, including Deputy Registrars, should be encouraged to pass the Bombay Government Co-operative Accountancy Diploma examination by offering suitable rewards. In addition, the Assistant Registrars should, when opportunity occurs, attend advanced lectures on co-operation and agriculture which may be arranged by the Patna University for the M. A. examination from time to time.

For a prospective Registrar we would only lay down that he should learn his work under the direct control of the permanent Registrar. It is unnecessary for us to stress the need for appointing a first class man to the important post of Registrar, since that has been very fully expounded by the Royal Commission on Agriculture. The danger of failure by the Registrar to perceive or of inability to check unhealthy tendencies in the movement has already been only too well demonstrated in the history of co-operation in India.

CHAPTER XIII.

The Bihar and Orissa Co-operative Federation.

216. *Origin and objects of the Federation.*—The Bihar and Orissa Co-operative Federation was started as a co-operative society in the year 1918 in order (*i*) to ensure a regular and efficient system of supervision, audit and control for all co-operative banks and societies enrolled as members; (*ii*) to promote agricultural, industrial and other special forms of co-operation; (*iii*) to aid in the expansion and improvement of primary education, to promote sanitation, to facilitate medical and famine relief and generally to secure moral and material progress of its affiliated societies; and (*iv*) to secure unity and uniformity among all co-operators in Bihar and Orissa and to see that all co-operative business is conducted on sound and progressive lines.

We have explained in Chapter X how its control as an audit union over the audit staff is largely illusory, power to override its decisions being vested under by-law 19 with the Registrar who is the *ex-officio* Governor of the Federation. It has not hitherto been used for the purpose of supervision, that function having been left to the central banks for their affiliated societies and to the department. As it has no statutory powers, it has necessarily had no " control " in the strict sense of the word. In the other objects, for which it was brought into being, it has made somewhat more advance. Like similar institutions in most other provinces, it serves as a centre of co-operative activity, carrying on propaganda and publicity work, organizing training classes, maintaining the training institutes, and ascertaining and co-ordinating the views of co-operators on questions of general and public importance relating to the movement. As such it renders a distinctly useful service, while it also relieves the Registrar of the task of collecting the levies necessary for the proper conduct of audit, though possibly at somewhat heavy expense to the societies who are required to pay them.

217. *Its constitution.*—The Federation is composed of affiliated co-operative societies of all kinds, which send delegates every year on the basis of one delegate for every central bank or union and one delegate for every 50 societies affiliated to it to meet in a conference called the Congress. This body is the supreme deliberative authority of the Federation. Its executive work is carried out by the Governor and a council of 17 members, of whom the Deputy

Registrar of Orissa and Chota Nagpur and the Secretary of the Provincial Co-operative Bank are *ex-officio* members. Of the remainder, three are elected, according to a standing convention, from each of the five divisions to provide for the representation of the different regional interests of the province. The Council meets four times a year, one of its meetings being held at the same time and place as the Congress of the year. Its annual report is presented to the Congress. During the intervals the work of the Federation is carried on by the Governor (i.e., the Registrar) with the assistance of a paid secretary and a separate office. The "Governor in Council" prepares the agenda of the Congress which discusses matters common to the whole movement brought up before it in the form of resolutions and passes the accounts of the preceding year and the budget of the coming year. Any resolution passed by it but not accepted by the Registrar-Governor has to be referred to Government for final decision. All Federation auditors and other direct employees are under the sole direction, control and discipline of the Governor, and auditors have to be licensed by him. He also licenses all paid employees of affiliated societies except menials. These employees are under the control and discipline of the central societies, in whose areas they work, but have the right of appeal to the Governor and the Council against an order of dismissal. If the Governor differs from the majority of the Council, the matter is placed before the Congress. The Governor possesses also the sole power to fix the number of each class of auditors to be employed, the qualification required and the pay of each class of auditors. No affiliated society can employ any salaried servant who is not licensed by the Governor.

218. *Actual working of the Federation.*—We have described the constitution of the Federation at some length, because without a grasp of its main provisions and of its actual working, it is impossible to decide what functions may be entrusted to it. The Congress is a deliberative body, too unwieldy for any detailed work. The Council by the nature of its constitution cannot attend to the day to day work, since it consists of mufassal representatives and meets for brief periods only four times a year. The bulk of the work of the Federation is consequently carried out by the Secretary under the orders of the Governor. In fact in some cases orders have issued from the Registrar's own office, that should properly have issued from the Federation office. These hard facts have to be faced and before recommending vaguely that any particular function is to be discharged by the Federation, it is essential to have a clear idea what person or body of persons will in practice make the decisions. Up to the present the real utility of the Federation has consisted in the opportunities which it provides of bringing co-operators of all kinds on a common platform, of pooling ideas and crystallizing opinion on the problems confronting the movement and of enabling the Registrar to obtain the invaluable

advice and help of the non-official leaders of the movement. Much excellent work has been done in this direction, and we ourselves are greatly indebted for information and ideas to some of the committees which the Federation has appointed in the past for investigating problems of co-operative organization.

Apart from these general functions, it has to be examined how far the Federation is in a position to take up more detailed activities connected with the movement. These may be examined under the heads (*i*) audit, (*ii*) banking, (*iii*) supervision and development, and (*iv*) training. We have already proposed that the higher audit staff should be transferred to the complete control of the Registrar. For local auditors the Federation will continue to levy contributions, and it is reasonable that somebody ultimately deriving its authority from the individuals who pay the levy should have a say in the manner in which it is spent. At the same time the Registrar is, by section 17 of the Act, under a statutory duty to see that the accounts of every registered society are audited at least once a year. The conflict that arises cannot be fully resolved. But we think for practical purposes the arrangement, by which the audit budget is considered by the Council and passed by the Congress, subject to the ultimate power of the Registrar, as Governor, to override, is a workable one on the finance side. On the administrative side we propose that the Registrar-Governor should, save in urgent matters, refer questions to a committee of the council for their advice, and keep that body generally informed of the action he has taken.

The banking aspect of the movement is not the close concern of the Federation, and we think it should have very little control over the banking staff of the central societies (whom we propose to separate entirely from the supervision and development staff). But the Council, or a committee of it, should, as at present, consider along with the Governor appeals against orders of dismissal, differences of opinion being referred to the Congress. Question of transfer, which cannot be settled locally, should also be finally decided by such a committee.

For control of the staff required for supervision and development we have already proposed Charge Committees. The working of those committees should certainly be the concern of the Council of the Federation, and the records of their proceedings and their reports should be considered by that body. But we would deprecate close supervision of detail as likely to weaken the authority of the Charge Committees. The Federation Congress will, of course, vote the funds required for this staff and control the distribution of them to the separate areas. It will be guided by the Council or a committee of that body, which should lay down standard conditions of pay and service and the strength of

the staff to be employed. Here again appeals against dismissal will go to the Council, or, if the Governor disagrees, to the Congress.

In the sphere of training of co-operative staff we think the Federation can take an even more direct part. The two training institutes are at present provided with managing committees. We doubt if these are really required, and would prefer that all matters, that are considered to be outside a proper delegation to the principals, should be dealt with by the Council or a committee of that body.

Thus, besides the function of crystallizing co-operative opinion, we think the Federation acting with or through its Council can perform four particular duties. It can assist the Registrar in his statutory duty of audit; it can exercise superior control over the staff required for supervision and development and to a small degree over that required for banking; it can administer the institutions required for training the staff employed by co-operative societies, and finally it can decide what levies from societies are needed for the performance of its duties and see that they are collected and properly applied. We think that these duties can be most efficiently performed by constituting three committees of the Council; a service committee to deal with the co-operative staff, its discipline and conditions of service; a training committee to administer the training institutes, and a finance committee to prepare the budget and to watch over expenditure. The Council, as a whole, would receive the reports of its committees, co-ordinate their work and decide major questions, which do not require reference to the Congress, but would not concern itself as much as it does at present with matters of detail. We think it would not be necessary for it to meet more than twice a year.

219. *Congress and Divisional Boards.*—We recognize that the co-operative movement has its spectacular as well as its practical side and that the gatherings of the Federation Congress are not to be regarded as purely business meetings. They serve to explain the principles on which the movement is being run and its resolutions have crystallized co-operative opinion on some controversial questions. It is however a matter to be considered by all co-operators whether the cost of these annual meetings, which ultimately comes from the pockets of the primary society members is not excessive. Some of us are of opinion that there is no real need for an annual session of the Congress and a biennial session would suffice. The budget could be passed for two years, since expenditure does not greatly vary from year to year. Others think that an annual session for the sake of continuity is necessary, but that the expenses should be reduced by sending by rotation

fewer delegates, say, two per bank (one for the bank and the other for its affiliated societies) and paying them only intermediate class fares.

We doubt whether Divisional Federation Boards are really necessary. We have no objection to their activities provided they do not cost anything to the banks or the Federation. We do not approve of the action of one Board in raising an extra levy on the member banks for the purpose of an Entertainment Fund, nor do we agree with the proposal of the special committee, appointed by the Congress to consider development, that the resolutions of the Divisional Board should be binding on the member banks. They may function as deliberative bodies at the delegates' expense, but it will be dangerous for them to encroach on the sphere of the Provincial Bank and the Federation and issue binding instructions to their members.

220. *Separate Federation for Orissa and other points.*—The Registrar in his evidence before us suggested that it may be desirable to set up a separate Federation for Orissa with its separate audit staff, separate contributions but a common Governor whose powers may be delegated to the Deputy Registrar. It is obvious that it must be extremely inconvenient and expensive for members from Orissa to attend the meetings of the Council or to take a sustained interest in its activities. In principle we are in favour of the proposal but we have not had the opportunity to examine its financial aspects. We recommend that the Federation Congress should appoint a committee to investigate this question.

The Federation at present employs a staff of propaganda officers. The general trend of evidence, as well as our own observations, indicates that the results obtained are insignificant compared with the cost of this staff. The Development Committee of the Federation has recommended that the ten men at present employed should be reduced to three. We agree with this proposal and would attach one propaganda officer to each of the three Deputy Registrars, whom we propose. They should be employed under his orders to assist the activities of the Charge Committees and the supervisors they control. The Deputy Registrar should consult those committees before drawing up a programme of work for the propaganda officer.

We had no occasion to examine the financial condition of the Co-operative Press owned by the Federation and therefore cannot pronounce one way or the other whether it should be maintained or closed. We should prefer it to be sold if a suitable price can be obtained, for we do not think the Federation organization is suited for running a big business concern.

221. *Finance of the Federation.*—The expenditure proposed in the budget of 1931 was as follows:—

Audit Section.

	Rs.	Rs.
Audit of primary societies	1,64,463	
Audit of central banks and special societies	48,939	
Special grants for new societies and backward areas.	8,078	
Interest and rent	13,068	
Advances recoverable	12,990	
Total ...		2,47,538
Development Section.		
Propaganda officers	29,903	
Divisional Boards and subsidies to central banks.	8,800	
Publications, etc.	4,200	
Miscellaneous	2,500	
Advances recoverable	1,500	
Total ...		46,903
Training Section		27,570
General administration		34,839
Grand Total ...		3,56,845

The receipts anticipated were :—

Audit Section.

Government grants—		
Primary audit	48,651	
Superior audit	16,672	
Inspection in backward tracts ...	6,000	
Rent of Co-operative Press building ...	3,068	
Total ...		74,391
Audit levies—		
Unlimited societies	1,38,910	
Limited societies	39,845	
Total ...		1,78,755
Affiliation fees and interest		10,520
Advances recoverable		11,000
Carried forward ...		2,74,666

	Rs.	Rs.
Brought forward ...		2,74,666
Development Section.		
Government grant	5,000	
Provincial Bank grant	2,400	
Development levies—		
Unlimited societies	33,770	
Limited societies	7,140	
Sale of publications, interest, advances recoverable, etc.	2,561	
Total ...		50,871
Training Section.		
Government grant	2,500	
Training levies	26,732	
Total ...		29,232
Grand Total		3,54,769

The Government supplies Rs. 81,891,* the levies bring in Rs. 2,46,397, and Rs. 16,481 is obtained otherwise.

We have been obliged to examine very carefully the result, which our proposals will have on the Federation finances, particularly in view of the growing protests against increase of levies and of the present stringency in provincial finances.

We set forth below an estimate of the cost of the movement, excluding (*i*) the cost of the department as at present constituted and (*ii*) that part of cost of management of societies with which the Federation is not directly concerned. The estimate is based on the assumption that there will be the present number of central banks and special societies, and 9,000 primary societies requiring audit and development staff. We wish to acknowledge the great assistance afforded to us in framing this estimate by the report of the Retrenchment Committee recently constituted under a resolution of the Federation Congress.

* A reduction of Rs. 12,167 in the grants for 1932-33 has been made in view of the financial position of the province.

AUDIT SECTION.

A. Audit of primary societies.

72 local auditors for 125 societies each on pay of Rs. 50—$\frac{2}{2}$—70 plus fixed travelling allowance Rs. 20 plus Rs. 17½ annually for contingencies—

		Rs.	Rs.
=72×12×60 72×12×20 72×17½	... ...	70,380	
Provident Fund	... ...	3,240	
Extra Travelling Allowance	...	840	
Privilege leave charges	...	4,320	
Total	...		78,780

B. Superior audit.

9* assistant auditors on pay of Rs. 125—$\frac{10}{2}$—150—$\frac{10}{1}$—200 per mensem with peons on Rs. 8. Estimated travelling allowance for auditor and peon Rs. 50 per mensem. Contingencies Rs. 40 a year for each auditor.

		Rs.	Rs.
9×12×150 9×12×8 9×12×50	... ...	22,464	
9×40	...	360	
Provident Fund	... ...	1,012	
Privilege leave charges	...	1,350	
Total	...		25,186

6 junior auditors on local auditor's pay (say Rs. 70 as they will be senior men) plus Rs. 20 per mensem allowance. Estimated travelling allowance Rs. 30 per mensem. Contingencies Rs. 20 a year.

		Rs.	Rs.
6×12×120	... ...	8,640	
6×20 ...	... ...	120	
Provident Fund	... ...	540	
Privilege leave charges	...	720	
Total	...		10,020
Grand total	...		35,206

* We adopt the Federation Retrenchment Committee's suggestion that with the introduction of the two-monthly audit system nine, instead of ten, assistant auditors will be sufficient.

DEVELOPMENT SECTION.

		Rs.	Rs.
C. Superior staff.			
18 development inspectors on pay of Rs. 80—4—120 per mensem. Estimated travelling allowance Rs. 30 per mensem. Contingencies Rs. 40 a year.			
18 × 12 × 100 18 × 12 × 30 18 × 40	... ...	28,800	
Provident Fund	... ...	1,350	
Privilege leave charges	...	1,800	
	Total ...		31,950
3 propaganda officers on pay Rs. 125—$\frac{10}{1}$—150—$\frac{10}{2}$—200 per mensem with peon on Rs. 8. Estimated travelling allowance Rs. 50 per mensem. Contingencies Rs. 40 a year.			
3 × 12 × 150 3 × 12 × 50 3 × 40	... ...	7,320	
Provident Fund	... ...	337	
Privilege leave charges	...	450	
	Total ...		8,107
	Grand total ...		40,057
D. Field staff.			
200 development supervisors (45 societies each) on pay of Rs. 50— —70 per mensem. Fixed travelling allowance Rs. 20 per mensem. Contingencies Rs. 17½ a year.			
200 × 12 × 60 200 × 12 × 20 200 × 17½	... ...	1,95,500	
Provident Fund	... ...	9,000	
Privilege leave charges	...	12,000	
Publications, etc.	... ...	4,500	
	Total ...		2,21,000

TRAINING SECTION.

E. The Federation Retrenchment Committee suggested no material saving. The training institutes are new and the cost will automatically expand as increments become due. We think a figure of Rs. 30,000 may be taken.

Lump cost ... ... Rs. 30,000

GENERAL ADMINISTRATION.

F. The Federation Retrenchment Committee suggested a saving of Rs. 8,500 on a budget figure of Rs. 35,000. We think the starting pay of assistants, even as reduced by that Committee is too high, and that Rs. 30, which is the starting pay of Collectors' offices is sufficient. The total cost of the general administration should not exceed Rs. 25,000.

		Rs.
Lump cost		25,000.
G. *Miscellaneous*—		
Special grants for new societies and backward areas		8,000
Interest and rent		13,000
Advances recoverable		14,500
Miscellaneous		2,500
	Total ...	38,000
	Grand Total ...	4,68,043

We think, as we have already said, that Government should bear the whole cost of superior audit and indeed that the service should be placed entirely under Government control. The superior service for development should also be paid for by Government. The development inspectors will be controlled by the Charge Committees, of which the Assistant Registrars will be permanent members, while the propaganda officers will be controlled by the Deputy Registrars. Although we attach very great importance to training, since we have proposed to leave the control of it entirely to the Federation, we do not think that there is any strong ground for asking Government to contribute to its cost. The cost of general administration has hitherto been excessive, and we think it would greatly tend to economy, if this cost was met by Government and consequently controlled by the Finance Department through a scrutiny of this part of the Federation budget. The miscellaneous expenditure is largely on account of interest payable because levies are not promptly paid, or advances to employees against provident funds. These are items of expenditure, which

should be met by the Federation, controlled by the public opinion of the movement as a whole expressed through the Congress. We propose therefore that Government should undertake the expenditure under heads B, C and F, estimated at Rs. 35,206, Rs. 40,057 and Rs. 25,000 making a total of Rs. 1,00,263 against a present grant of Rs. 81,891.

It is not likely that this expenditure will greatly increase in the next few years, an important consideration in view of the present state of the finances of the province. The only increase we anticipate is more development inspectors for which the provision of one for every 500 societies is decidedly meagre. This will leave a sum of Rs. 3,67,780 to be found by the Federation. Assuming that its miscellaneous receipts continue to stand at somewhere about the present figure of Rs. 26,481, the revenue from levies will have to be about Rs. 3,41,000 against a present revenue of Rs. 2,46,000. The bulk of this excess of Rs. 95,000 will fall on the central banks and the ordinary primary societies. A great part of this increase, should be saved by employing a cheaper " banking " field staff. It has been generally accepted that an average pay of Rs. 30 with travelling allowance of Rs. 10 will be sufficient for the banking supervisors, who will each be in charge of 50 societies, allowing Rs. 20 a year for contingencies, the total cost will be Rs. 90,000. We have no exact figures for the present cost of inspecting clerks, but an examination of the statements prepared for us by some of the banks we visited leads to the estimate of Rs. 15 per society. If this is correct the saving would be Rs. 45,000. There should also be a saving of perhaps Rs. 5,000 as a result of " managers " (as they are now called) being replaced by banking inspectors, without any development duties.

The proposals we have made, when in full working, would thus cost Government about Rs. 18,000 and the movement which in effect means ultimately the borrowing members about Rs. 45,000 more than at present. Although the Government of Bihar and Orissa contributes in one way or another, in proportion to the number of members of primary societies, less than other local Governments do, we recognize that in present conditions it is impossible to expect any substantial increase from that source. From the 250,000 primary members about Rs. 2,50,000 is at present raised by levy, which is something like 1 per cent on the working capital of primary societies. We see no prospect of the Congress agreeing to find a further sum exceeding one-fifth of the present levy. Our proposals for audit are based on a considerable reduction both in the number and the emoluments of the staff, and we can see no possibility of any further economy there, even as a temporary measure. Nor can any material saving be made in the training or general administration charges. We are thus driven to propose a reduction of the cost of the development section, though this will

mean an employment of a staff which will be distinctly less than adequate. If the development supervisors were required to look after about 55 societies instead of about 45, their number could be reduced from about 200 to about 160, with a saving of Rs. 50,000. This would make it unnecessary to increase the levy by more than the probable savings of central banks brought about by employing " banking supervisors " instead of the more expensive " inspecting clerks." If it is absolutely necessary the superior development staff could be reduced from 18 inspectors to 16, with only one propaganda officer directly under the Registrar instead of three under the Deputy Registrars, making a saving of Rs. 6,252. But, as we have already said, the provision of one development inspector for 500 societies is decidedly meagre, while a single man, devoting himself to working up effective means of putting co-operative ideas into a shape that will appeal to the masses will be a scant provision, if the " better living " side of the movement is to be treated as seriously as it deserves. We can only express the hope that when Government's financial position improves, our proposals may be fully met, and that, by strict economy throughout the movement, the possible contributions by way of levy may be stretched to cover essential needs.

We think it is outside our province to advise the Federation on the rates to be levied from different kinds of societies. But we would urge that those societies that do not require close supervision either in the audit or the development side should not be overburdened with levies, though capacity to pay may rightly be taken into account as well as the service actually rendered.

222. *Compulsory affiliation.*—Since all societies registered under the Co-operative Societies Act obtain certain privileges, the majority of us think that they should be obliged to contribute to the cost of efficient management of the movement as a whole, and consequently recommend that in future all societies should be obliged to affiliate themselves to the Federation, and that existing societies, which are not members, should be brought in under threat of deregistration.

Mr. Batheja thinks that the exceptional step, which has not been taken in any other province, of forcing all members of co-operative societies into an association, which has in effect the power of taxation, necessarily involves some control over that power especially as he does not think the individual members have a sufficient say in the Federation Congress. He recommends that levies proposed by the Federation should require the approval of Government. Mr. Roy would prefer to adhere to the present system of voluntary association, but, if compulsion is applied, agrees with Mr. Batheja that outside control would be proper. The majority of us deprecate such control on the ground that we believe that the borrowing members, who ultimately pay the levies, have

an effective voice in the decisions reached by the Congress, and that Government control in such a matter is contrary to co-operative ideals.

If membership of the Federation continues to be voluntary we are all agreed that the Registrar should have a statutory power to recover the cost of audit, however he decides to conduct it, from societies which stand out.

PART V.

REALISATION, LEGISLATION AND THE DEPARTMENT.

CHAPTER XIV.

Recovery of dues. Awards and liquidation.

223. *State of collections.*—Ability to get from debtors not only regular payment of interest, but also the instalments of principal according to the agreed terms of the loan, is essential for a sound banking system. All banking involves the use of borrowed money, and, since the creditors of banks expect prompt payment of due demands, the banks must be reasonably sure of equally prompt and regular payment of their dues. It is well known that of recent years the central banks have not been able to collect in full according to the terms of the loans made by them. The figures below are taken from the Registrar's Annual Reports and show the percentage of collection on total demand, including arrears :—

Year.	Percentage.
1924	57
1925	63
1926	59
1927	68
1928	65
1929	59
1930	35

The percentages of 1927, 1928 and 1929 were calculated on demands as revised by substantial revisions of the terms of repayment in favour of the debtor societies, and should perhaps be scaled down to 54, 52 and 46 respectively on the original terms of the loans. Such standards of collection, which are presumably repeated in the primary societies, cannot continue indefinitely, without bringing about very serious consequences.

We are satisfied that, until recently, the main cause for poor collection was undoubtedly that loans, granted for periods not exceeding five years or so, were applied to the repayment of

debt and the redemption or purchase of land. Bad seasons sporadically increased the difficulty of collection, and real over-financing, i.e., grant of loans beyond even ultimate ability to repay, especially to non-agricultural societies, has played its part. More recently the rush of marriages to avoid the operation of the " Sarda " Act ate up funds, which might have been available for repayment. Finally in the last 18 months, rural India has come within the scope of the worldwide economic depression, of which we have not yet seen the end.

224. *Improvement of machinery for collection.*—We have said elsewhere that an attempt to realize dues indiscriminately, while the present price levels prevail, would not only cause very grave hardship but also defeat its own aim. But, where members and societies are in a position to pay, what they have contracted, they should be pressed to do so. In the meantime steps, which we now proceed to indicate, should be taken to improve the machinery of collection.

225. *The meaning of an " award ".*—Where a member of a primary society fails to pay his dues, the course open to the society, other than an ordinary money suit in the civil court, is provided by rule 12 of the Rules framed under section 43 of the Co-operative Societies Act. This provides for a reference to the Registrar of any *dispute* touching the business of the society not only between members of the society but also between the executive of the society and its members. A claim for payment of dues, if not complied with, is considered to be such a *dispute* and the Registrar, or an Assistant Registrar duly empowered, may either decide the dispute himself or refer it for decision to arbitrators. Such decisions, which are called *awards*, are, on application to the appropriate civil court, enforceable as a decree of that court. In practice the Assistant Registrar usually deals with the matter himself.

226. *Central banks to have power to proceed against individuals.*—It has been represented to us first that some primary societies do not apply for awards against their members with proper energy, and second that the civil courts are dilatory in executing the awards when presented to them. In regard to the first defect, it is further to be noted that the practice has been, up till recently, for central banks to obtain awards executable against individual members of affiliated primary societies. This practice has been stopped by a recent ruling of the Patna High Court. As a result a central bank has seldom any immediate remedy against a primary society, which declines to collect from its members by way of award the sums required to pay its dues to the central bank. Few primary societies have any property of their own against which the central bank can execute. We think this is a vital defect in the machinery for recovery of dues which must be removed.

A central bank should have power to require an affiliated society to apply for an award against one or more of its individual members. If the primary society fails to do so within three months of such a requisition, the central bank should be empowered to apply for an award against individual members and to realize from them a sum, to be fixed by the Assistant Registrar of the society's dues to the central bank. Further, if, after a primary society has applied for and obtained an award against its members, the central bank can satisfy the executing court that the primary society is not diligently prosecuting the award, the court should be empowered to substitute the central bank for the primary society as the decree-holder, or, if no application at all has been made to execute the award, to permit the central bank to make such an application.

227. *Power of Registrar to distrain.*—These increased powers should ordinarily be enough to enforce collection, where payment is possible. But occasionally, no doubt, the habit of evading payment of co-operative dues has become so ingrained that a more drastic remedy is needed. For this reason we support legislation following the precedent of the Madras Bill, empowering the Registrar and his subordinate officers to distrain on the movable properties of members for dues to their societies. The precise method of distraint and the circumstances in which the power could be used may be left to be defined by statutory rule, as the Madras Bill proposes. The general scheme might follow that laid down in Chapter XII of the Bengal Tenancy Act. The Registrar would probably have to utilize the servants of a central bank for the actual process of distraint, and it might be as well to require that applications for distraint, if from primary societies, should be backed by the central bank.

228. *Awards to be brought under certificate procedure.*—To remedy the second defect, arising from the inability of the civil courts to execute decrees arising out of awards promptly, it has been proposed that the enforcement of awards be also placed in the hands of the revenue courts, i.e., that they may take the form of a certificate under the Public Demands Recovery Act. This is provided by implication in the Madras Bill, which proposes to preclude both civil and revenue courts from questioning the decision of the Registrar or the arbitrators. A liquidator's orders can at present be enforced either by the appropriate civil court or by requisition from the Registrar to the Certificate Officer. We support the proposal that the same choice of alternatives should be thrown open for the execution of awards. In Sambalpur, where the Public Demands Recovery Act is not in force, the only course is to make awards realizable by the same process as that used for recovery of land revenue in that district.

229. *Conditional attachment during pendency of award proceedings.*—In order to prevent defaulters from defeating or delaying execution of awards by disposing of or removing their property during the proceedings we commend the proposal embodied in the Madras Bill that the Registrar should be empowered to direct the conditional attachment of property.

230. *Co-operative debts to be a "first charge".*—It is here also convenient to consider a proposal which has long been pressed by co-operators, viz., that, after the claims of Government for public demands and of landlords for rent, debts due by a member to a co-operative society should be a first charge upon assets created or developed by means of loans advanced by that society. This principle is already in the law in Bombay, and is embodied more comprehensively in the Madras Bill, and we see no good reason why the precedent should not be followed in this province, when the law is amended. At present co-operative debts are merely a lien.

231. *Notice of rent suits to be given to central banks.*—It has been represented to us that members sometimes avoid paying their just dues to their societies, by means of collusive rent suits brought against them by their landlord. We suggest as a guard against this a provision of law that landlords, to whom notice has been given that one of their tenants has joined a co-operative credit society, should be obliged to send a copy of the notice of a rent suit to the central bank, to which that society is affiliated. Even where the suit is not collusive, it would be an advantage to the central bank to know that primary society members were being threatened with suits for rent, so that early action might, if thought fit, be taken to assist them. It would, however, be necessary to provide some "sanction" against failure to give copies of suit notices.

232. *Cautious use of increased powers.*—We realize that in making these proposals for improving the machinery for collection of overdues, and especially in placing with the central banks more power to enforce collection, we are admitting a very serious failure of co-operation, which should depend on the character of the members and should expect the primary society to take action of its own motion against defaulting members. The additional powers which we have proposed should not be lightly used, or they will result in turning the whole movement into a *mahajani* business, at least as soulless as the ordinary business of rural money-lenders. It is essential for co-operators to remember the following passage from Mr. Calvert's Edition of the Co-operative Societies Act (page 193) :—

"At first, Government refused to allow the societies a special summary procedure for the recovery of their debts in place of the

slow and expensive methods of the courts. It would, it was thought, be mistaken kindness to confer upon societies arbitrary powers of recovery, and if in the absence of such powers a society cannot by means of the joint security given and its own moral authority collect its debts, the failure is due to a careless selection of members in the first instance or to lax management. If individual societies could employ special methods in dealing with their members, they would be encouraged to become careless in administration and to neglect the vital principle that admission should be refused to those who cannot be relied upon to fulfil their obligations."

233. *Liquidation statistics.*—So far we have been dealing with the recovery of dues from societies in full working order. It remains to discuss the case of societies, which have to be liquidated. The matter is one of growing importance. In 1922-23, 80 primary societies were brought under liquidation, 92 in 1924, 129 in 1925, and 440 in the three years 1927—29. Thus whereas in the earliest year 1.55 per cent of the total number of primary societies then registered came under liquidation, in the three latter years 1.66 per cent were so treated. In the last year for which a report is ready, 1930, 261 societies were brought under liquidation or 2.89 of the total number.

The outstanding dues from societies under liquidation was Rs. 6⅓ lakhs at the end of 1928, but stood at Rs. 7¾ lakhs at the end of 1929 and at Rs. 11⅞ lakhs at the end of 1930. This means an increase from 2.8 per cent on the working capital of central banks to 3.4 per cent and again to 5.1 per cent. The realizations from societies under liquidation for the last three years have been about Rs. ¾ of a lakh, Rs. 1¼ lakhs and Rs. 2½ lakhs.

234. *Compilation of statistics of completed liquidations.*—As liquidation proceedings cover several years, it is not possible to judge from these figures what proportion the ultimate recovery will bear to the demand. We think that the records of complete liquidations should be brought together in order to arrive at a probable figure for that proportion. As things stand there is no guide for auditors and the institutions that they audit, when attempting to determine what part of a lump sum shown as bad and doubtful debts should be reckoned as definitely bad.

235. *Liquidation of non-agricultural primary societies.*—Much of the outstanding dues from societies under liquidation are, no doubt, from non-agricultural societies, whose disastrous careers have landed many of the central banks in difficulties. Some banks that we visited had as much as Rs. 20,000 or even Rs. 50,000 locked up in this way, of which a very large proportion is probably irrecoverable. We commend to the Registrar the suggestion that a detailed examination of such burdens on the finances of the movement should be made, in order to judge more clearly how the normal

type of society, the primary agricultural credit society, stands. We also think that the proceedings in the case of non-agricultural societies under liquidation should be pushed on with all possible vigour and the central banks strongly advised to write off the bad debts that have accrued from them.

236. *Liquidation of agricultural societies.*—The difficulties of liquidating agricultural societies are considerable. The ultimate security for the debts of members of such societies is their landed property. As we have already seen in some districts this cannot be brought to sale at all, while everywhere the process is fraught with difficulty of greater or less magnitude. As a result purchasers are shy, and the principal creditor, the central bank, is sometimes compelled to buy in the land itself. It has no staff competent to manage such assets, and not infrequently gets less out of them than it has to pay out by way of rent and cess. If, on the other hand, attempts are made to realize dues not on capital, but on income, liquidation proceedings drag on interminably, as the debtors can only pay on their crops, once or at best twice a year. It has been urged before us that liquidators of primary agricultural societies should visit the villages concerned, and not merely work through the courts. We agree with this idea, though the extra cost of such touring must always be a factor for consideration.

237. *Access for liquidators to documents kept in public offices.*—Another complaint made is that much expenditure is necessary for the fees to be paid for obtaining the information required by a liquidator from the collectorates and the registration offices. We have been assured by the Inspector-General of Registration that the existing rules allow the liquidators full access to the index of documents and to the documents themselves without charge, though they naturally have to pay for copies prepared for them. This is not generally understood, and we think the rules might be made clearer, and a copy of those that are relevant supplied to liquidators. We also see no reason why they should not be allowed, under proper supervision, free access to the copy of the record-of-rights kept in the Collectorate. In most cases a liquidator merely requires information and not certified copies of documents.

238. *Agency for liquidation.*—Liquidation was until recently entrusted to honorary workers drawn as a rule from the directorate of a central bank. In 1928 the experiment of appointing paid whole-time liquidators was introduced, and it has on the whole given much better results, though there are still some difficulties arising out of the wide distribution of societies under liquidation. Though we would not fetter the discretion of the Registrar, we think that liquidation should ordinarily be entrusted to paid whole-time men, working under the close supervision of the department. Though their cost must ultimately fall on the assets of the societies

liquidated, we think Government should advance a sufficient sum to enable the Registrar to pay such men regularly, if necessary charging interest on the amount so advanced. It is not the function of the Federation or of the financing banks to supply such advances to enable the Registrar to carry out a statutory duty.

239. *Delays in decisions to liquidate.*—We have had some complaints that the order for liquidation takes a long time to secure. We think that, when a creditor applies for inspection of a society under section 36 of the Act, such inspection should be made very promptly and a decision reached without delay whether dissolution and liquidation should follow. Any long interval between the application and the decision gives opportunities for dishonest members to dispose of their assets and enables other creditors to protect their interests at the expense of the applying creditor.

240. *Prevention of fraudulent dissipation of assets.*—We further recommend a statutory provision which would prevent fraudulent dissipation of assets at any rate during the period between the order of de-registration and the decision of the appeal provided in section 39. It may indeed be necessary to extend the period backwards to the commencement of the inspection under section 36.

241. *Liquidation of central banks.*—So far we have been in the main considering the liquidation of primary societies. The liquidation of central banks raises other problems. Up to now only two unimportant banks have been so treated, the Bettiah Central Christian Bank in Champaran district, and the Banpur Central Bank in the Puri district. There is a natural reluctance to take this extreme course with a central bank, arising partly from the shock which it gives to the credit of the movement in the eyes of the public, and partly from the hardship that it imposes on the members of the better primary societies affiliated to the bank. We think that the possibility of general credit being shaken must be faced with more resolution than has been displayed in the past. We doubt whether public confidence is not more likely to be insidiously sapped by the underpinning of thoroughly dilapidated institutions than to be driven into a sudden panic by their collapse. After all the public invests not in " the movement " but in particular credit institutions, of whose management most investors can judge by a study of the balance sheet and their personal knowledge of the leading members of the directorate.

242. *Protection of good primary societies.*—The other reason for keeping alive invalid central banks has more weight. Hitherto in the two banks liquidated, the problem of dealing with the better affiliated societies has not been acute, since in both cases a neighbouring bank in a fairly prosperous condition was ready to take them over. This may not be so easy, if other liquidations became necessary. We certainly think that every effort should be made to

save good societies. During the period of liquidation of a central bank the following action should be taken if possible :—

(*i*) Attempts should be made to organize a new central bank in the same area, to which the better societies should be affiliated.

(*ii*) If this is not advisable or possible, a neighbouring central bank should be pressed to take them over.

(*iii*) Pending such arrangements the Provincial Bank should be invited to continue to supply them with short-term credit, on the advice of the department supplemented by the information derived from its own inspectors, if appointed.

(*iv*) If none of these expedients are possible, the better societies should be promptly liquidated, and the balance after liquidation spent on a permanent benefit to the village, or set aside as a nucleus fund for a non-credit village welfare society.

We have said elsewhere that we do not advise in the present depression a rigorous policy of liquidation of societies of all kinds that are unable at the moment to meet their liabilities. At the same time societies, whether primary or secondary, which are hopelessly apathetic or involved beyond any chance of recovery should be liquidated.

243. *Use made of the principle of unlimited liability.*—It is proper to indicate the extent to which the principle of joint and unlimited liability has been enforced in the liquidation of societies governed by that principle. The Provincial Banking Enquiry Committee was informed that out of Rs. 2,10,502 realized by liquidation proceedings up to the end of 1928, only Rs. 4,498 had been realized by holding members to their undertaking for the debts of their fellow-members. The latest figures, those of 1930, show Rs. 43,700 so realized in the year out of a total of a little less than Rs. 2,50,000. It is evident that the fear of unlimited liability, which deters many agriculturists from joining co-operative societies, is not by any means a mere bogey. We expect that it will continue to operate as a check on the recruitment of the more thrifty and foreseeing raiyats, as long as primary societies attempt to fulfil the function of land mortgage banks.

244. *Remission of fees in certificate cases.*—A few other points remain to be considered. Liquidation can be carried through either with the help of the ordinary civil courts or by the special procedure of the Public Demands Recovery Act in the revenue courts. In the civil courts we are told that certain fees are not payable, which are required in the revenue courts. We have not been able

to examine the reason for this difference, and so can express no opinion on the merits of the proposal to remit fees in revenue courts.

245. *Challenge of liquidators' orders before the Certificate Officer.*—The question has been raised whether the order of a liquidator is open to examination by a revenue officer, before whom a requisition for a certificate under the Public Demands Recovery Act has been made. The Board of Revenue has definitely held in a recent case that it is not so open. There is, however, always a possibility of such a decision being brought in some way or another, before the High Court, which may take a different view. The Board of Revenue's decision is certainly in accordance with the intention of the legislature, and we think that it would be as well, when the Act is amended, to place the matter beyond question.

246. *Insolvency of members.*—It has been urged that members of co-operative societies take refuge behind the provisions of Insolvency Law to escape from paying their dues to societies. We have some evidence that this practice is increasing. But, even if it is desirable to restrict members of co-operative societies from getting themselves declared insolvent, we are aware of no concrete proposal for doing so effectively.

247. *Disposal of surplus after liquidation.*—Finally there appears to be a considerable difference of opinion among co-operators regarding the manner in which any balance that remains over to a society after liquidation should be treated. Two cases should be distinguished. A society may be brought under liquidation on application made by three-fourths of its members, or it may be liquidated as the result of an enquiry made by the Registrar under section 35 or an inspection under section 36. The first will ordinarily be voluntary and the others forced liquidation. In all cases the Registrar is under no positive obligation to liquidate. He is usually, if not invariably, the final authority prescribed by the by-laws of the society to decide how any surplus on completion of liquidation is to be disposed of. The standing practice is for such surplus to be devoted to an object, selected by the members and approved by the Registrar, designed for the benefit of the locality in which the society operated. Failing an agreement within a reasonable time about such an object, the Registrar has hitherto ordered the surplus to be credited to the funds of the Development Section of the Federation. We see no reason to advise an alteration of this practice. The surplus is the common property of the society, and should not on liquidation be divided amongst members, especially as it has been accumulated by the efforts of past as well as present members. Any such practice might encourage applications for voluntary liquidation.

CHAPTER XV.

Legislation.

248. *Need for a provincial Co-operative Act.*—The time has certainly come to replace by a provincial Act, with such alterations as may be necessary, the all-India Co-operative Societies Act of 1912. Bombay and Burma have already their local Acts and a Bill has been drafted for Madras. We have not had sufficient time to prepare a complete Bill, but we have examined the draft of a Bill made in the Registrar's office a year or two ago and give our views on its more important features.

249. *Increase of the limit for individual holdings of shares.*—It is proposed in modification of section 5 of the Act of 1912 to raise the maximum for an individual holding of shares in a limited liability society from Rs. 1,000 to Rs. 3,000 and give the Registrar power, in special types such as housing societies, to place the maximum at Rs. 10,000. The second proposal is borrowed from the Bombay Act. The first is new. Neither Burma nor Madras have seen any need for a change. We are not aware of any need in this province for a general raising of the maximum. Nor is it clear why individuals should hold very large blocks of shares in a housing society. Capital for such societies should be raised by means of debentures. We think that if any relaxation is required in special cases it should be made by the local Government under section 46.

250. *Power to insist on amendment of by-laws.*—Section 11 of the 1912 Act gives the Registrar control over amendments of by-laws, when a society proposes so to amend. It gives him no power to insist on the amendment of the by-laws of an existing society, which does not wish to amend. It is proposed to give him such power. There is no precedent either in Bombay, Burma or Madras. We have suggested certain changes, in regard to central banks in particular, which will necessarily involve alterations in the by-laws of existing societies, e.g., the abandonment of the preference in the matter of dividends given to individual over ordinary (society) shareholders. We doubt whether such changes can be brought about in all cases by persuasion or even by the exercise of such control as the Registrar or the Provincial Bank at present have. We would, therefore, give this additional power but place it in the hands of the local Government instead of the Registrar.

251. *Proposal to give by-laws of a society the force of law.*—In order to check disregard by members of societies of the by-laws, to which they have subscribed, the Federation Congress has

proposed that by-laws should have the force of law. The precedent of section 139 of the Bengal Local Self-Government Act of 1885 is quoted. As far as we can see the proposal rests on a misunderstanding. The enactment quoted gives district boards power to prescribe penalties for the commission of certain acts by the public which are detrimental to the proper performance of their duties. It is not intended by this section to enforce the liability of the constituent members of a district board for failure to conduct their business in accordance with their rules. Though we are fully in sympathy with the idea that such enforcement is necessary we do not think this is the way to secure it.

252. *Audit and surcharge.*—It is proposed to elaborate section 17 of the Co-operative Societies Act in order (*i*) to define more clearly what the audit report shall show, (*ii*) to provide that the officers of the society shall be legally bound to appear before the auditor and to furnish information, and (*iii*) to empower the Registrar, subject to an appeal to the local Government, to surcharge the person or persons responsible for payments contrary to law or the rules of the society. We support these proposals very strongly, as we consider that adequate audit and the enforcement of liability, disclosed by audit, for acts done to the detriment of the property of a society, which are contrary to the law or rules are absolutely essential for sound co-operative progress.

253. *Restrictions on the grant of loans and on borrowing.*—Two proposals have been made, first that the Registrar should be empowered to prescribe a limit to the loan which a society may grant to an individual member, and second that he should be empowered to limit the extent and mode of outside borrowing. Though we recognize that they are designed to check serious abuses, we are doubtful whether the first of these provisions is essential, and it would certainly weaken the growth of responsibility in co-operative societies. To check the practice of granting to individuals disproportionately large loans we would prefer to rely first on the control of the general meeting of the society itself, which should be strengthened by proper attention to development, and second on the control of the financing institution, which as a rule supplies the funds for considerable loans. We also anticipate that if, in future, the present kinds of co-operative credit societies are restricted to short and medium term loan business the abuse will be greatly diminished. We doubt if the Registrar's control, if given, would be really effective.

On the second question, we see no need for new legislation. Section 43(2)(*e*) empowers the local Government to " regulate the manner in which funds may be raised by means of shares or debentures or otherwise." It is open to Government to frame a rule on this subject and most local Governments require societies

to fix their annual maximum liability and empower the Registrar to reduce it, if he thinks fit. As we have said before we think it is better to place this power generally with the financing bank, either central or provincial.

254. *Restriction on dividends.*—It has been proposed to embody in the Act a provision that no dividend in excess of 9 per cent shall be paid without the Registrar's sanction. There is already a statutory rule framed under section 43(2) (*r*) limiting in this way dividends to 12½ per cent. The proper course would seem to be to amend this rule and not to put a new section in the Act.

255. *Increase of liquidator's powers.*—We support generally proposals to legislate in order to increase a liquidator's powers in the matters of getting possession of the books and documents of a de-registered society as soon as possible, of making compromises with creditors, of determining contributions from time to time as liquidation proceeds and other matters, in so far as they are not or cannot be provided for by statutory rules. But here again we deprecate rigid legislative provisions, where more flexible provision by rule is possible.

256. *Assessment of damages during liquidation.*—In addition to the proposal to empower the Registrar to surcharge for breach of law or rules disclosed by the audit of a working society, it is proposed to allow him to assess damages against officers of a society during liquidation. This proposal already stands in the Bombay Act as section 50-A and it is proposed in the Madras Bill. Further it is in effect the law for ordinary companies by reason of section 235 of the Indian Companies Act, 1913, which gives the power to the court engaged in winding up a company. We strongly support this proposal. A right of appeal is required here too.

257. *Amendment of the preamble.*—The preamble, as it stands, limits the provisions of the Act to societies designed to help " agriculturists, artisans and persons of limited means." We have already indicated that this may be interpreted as excluding certain forms of co-operation, such as housing societies, which it is desirable to promote. We think that the preamble should be amended on the lines of the Bombay Act.

258. *Other proposals.*—We have dealt in the previous chapter with proposals for legislation designed to facilitate collection of dues, and elsewhere with legislation for relaxing restrictions on transfer of holdings (paragraph 65), for strengthening the control of the Provincial Bank over central banks (paragraph 98), for increasing the statutory provision for reserve (paragraph 118), for providing for the supersession of central bank directorates (paragraph 201), and for placing the recovery of audit charges on a statutory basis (paragraph 222). Should our proposals for the establishment of land mortgage banks be accepted, special legislation on that subject will probably be required.

CHAPTER XVI.

Organization of the Co-operative Department.

259. *Existing strength.*—The present organization of the agency for the official control and supervision of the movement consists of the Registrar, an officer of the Indian Civil Service or one of the Provincial Executive Civil Service holding a listed post, the Deputy Registrar, taken from the latter service, and twelve Assistant Registrars, of whom three are temporary additions to the strength, drawn mainly from the cadre of the Provincial Executive Civil Service, and lastly one Chief Auditor. Except ministerial and menial establishments attached to these officers, all other persons employed on full time in the movement are the servants of the Federation or of the individual societies. Thus Bihar and Orissa, unlike most other provinces, has no official establishment for field work below the rank of a gazetted officer.

260. *Increase of Deputy Registrars.*—The Registrar has undoubtedly a very heavy burden, and we think it is essential that he should get substantial relief as soon as possible. We propose that the number of Deputy Registrars should be raised to three, one for North Bihar, one for South Bihar including Palamau, and one, as at present, for Orissa and the Chota Nagpur Divisions excluding Palamau. These three areas have at present 19, 25 and 23 central banks, and the number of societies in each area is not very far from being equal. Possibly relief could be afforded to the two heaviest charges by placing certain areas directly under the Registrar, as in the Punjab. The present Deputy Registrar draws pay on a special scale of Rs. 1,000—40—1,200. We think that consolidated pay of Rs. 800—40—1,000 is sufficient to attract capable officers of the Provincial Executive Civil Service from which service we expect for some time to come. at any rate, these posts will be filled.

261. *Assistant Registrars to be drawn from Subordinate Executive Service.*—We see no good reason for continuing the practice of appointing officers of that service to the posts of Assistant Registrars, however necessary it may have been to do so in the early years of the movement. We intend that Assistant Registrars should be mainly concerned with rural primary societies, and we doubt if their members are able to distinguish between Deputy and Sub-Deputy Collectors. We understand that Government, owing to the curtailment of Survey Settlement operations, is far more able to supply the latter than the former, and it is likely that the Co-operative Department will get something like the pick of the Subordinate Executive Service cadre.

262. *Period of service.*—An officer should usually be taken after 5 to 7 years' service, and, if satisfactory, retained for 5 years, when the question of his reversion should be considered. If he is retained longer it should be for another 5 years, during which period we expect that the best of them will gain promotion to the Provincial Executive Civil Service. It would probably be best to revert them after 10 years, since those that are not of special merit will grow stale, while those who, by promotion to the Provincial Executive Civil Service are marked out as likely to be fit for the post of Deputy Registrar, should have some experience in the general line, including, if possible, the charge of a subdivision. It would be as well to revert these soon after they gain promotion to the Provincial Executive Civil Service.

263. *Pay of Assistant Registrars.*—We think the present time-scale B for Sub-Deputy Collectors, viz., Rs. 225 in the 6th year of service, rising by triennial increments of Rs. 25 to Rs. 300 in the 15th year of service, with a special allowance of Rs. 25 will be sufficient. Such of them as gain promotion to the Provincial Executive Civil Service should come in under the ordinary rules and draw their pay as Deputy Collectors plus an allowance of Rs. 50 a month. We anticipate that it may be possible and desirable to recruit occasionally either from Federation Officers of special merit or perhaps from the Agricultural or Education Department. If such appointments are made they should be on the same rates of pay. In view of the smaller charges that we propose and improved means of transport, we see no justification for continuing special rates of travelling allowance.

264. *Size of charge and number of Assistant Registrars.*—The Assistant Registrar's charge should be about 500 rural primary societies, which will mean at present 3 or 4 central banks. The province should be organized into 18 charges, and there should be three spare officers—one under training, one for leave reserve, and one for special duty. There should also be one senior Assistant Registrar employed as Personal Assistant to the Registrar making 22 officers in all.

265. *Cost of reorganisation.*—We expect that normally the cost will be as follows :—

	Rs.
One Assistant Registrar under training on Rs. 250 p.m.	250
Six Assistant Registrars on Rs. 250 per mensem ...	1,500
Six Assistant Registrars on Rs. 275 per mensem ...	1,650
Six Assistant Registrars on Rs. 300 per mensem ...	1,800
Three Assistant Registrars on Rs. 400 per mensem ...	1,200
Three Deputy Registrars on Rs. 900 per mensem ...	2,700
Total ...	9,100 per mensem.

The present pay of the staff excluding the Registrar is about Rs. 8,200 per mensem.

266. *Arguments against a closed service.*—We are not in favour of creating at present a closed service of gazetted officers in the Co-operative Department. In the first place it would be exceedingly difficult to provide for officers, who by reason of age or infirmity were unable to tour constantly. Next we expect that some officers would lose their keenness, and while that quality is very desirable in all walks of life, it is essential in co-operative work. Lastly we think that it is desirable that the general administration should have a leaven of officers, with close experience of co-operation. Possibly these objections to a close service may, as the specialization required by the officers employed in it increases, cease to have the weight we attach to them now.

267. *Other proposals.*—We see no present need for a Joint Registrar, but every third year an officer suitable for appointment as Registrar should be placed on special duty for six months for training to fill the vacancy when it may occur. We do not think that the appointment of Honorary Assistant Registrars is a practical proposal.

268. *Financial considerations preclude a subordinate field staff.*—In the present financial position of the province we cannot recommend fresh expenditure on providing a staff of non-gazetted Government officers to work under the Assistant Registrars, particularly for inspecting the work of development supervisors, although some of us think that such a staff would be exceedingly useful. We must rely on the cheaper expedient of development inspectors, of whom one will be attached to each circle committee, and who will be servants of the Federation, their cost being met by a grant from Government.

269. *Probable future requirements.*—We cannot estimate exactly the extra cost of the department on the basis of our proposed reorganization. This should be regarded as the minimum needed for present conditions and any marked expansion of societies will require a corresponding expansion in the department. In particular it will probably be necessary before long to provide a fourth Deputy Registrar, relieving the South Bihar and the Orissa *cum* Chota Nagpur charges by forming a new charge comprising the Santal Parganas and Chota Nagpur. Though the Chief Auditor fills a very useful place in the organization of the department, we think that, when funds permit, he should be replaced by a Financial Adviser to the Registrar of a considerably higher status.

270. *Training.*—It is essential that officers employed in the Co-operative Department, who are expected to give sound guidance to the movement should be thoroughly trained in co-operative

principles and have a good working knowledge of banking. For this purpose it is necessary to treat Assistant Registrars, for at least the first six months after they have joined the department, as under training, and during this period they should attend a short course at the Sabour Training Institute, as well as be attached to a Deputy Registrar and to an experienced Assistant Registrar before being placed in independent charge. They should be considered as under probation in the department for 18 months, and if not thought suitable should be reverted to their previous post at the end of two years. In order to improve their knowledge of banking, they should be required to pass one of the banking examinations, which can be taken up without residence at an institution if they are to be retained in the Department, and encouraged by a special reward to take a similar audit examination.

271. *Immediate extra requirements.*—For the immediate future we think it necessary that two experienced Assistant Registrars should be placed on special duty, probably for one year, to supervise the work of estimating the repaying capacity of members of primary societies and of separating out wilful defaulters from the others, and deciding what relief should be given to the latter in the way of extension of *kists* or possibly reduction of interest. This work will have to be done by the directors and staff of the central banks, but we consider that as it is so essential that it should be done systematically, the State should contribute by employing special officers for the purpose. If the proposal to establish land mortgage banks is accepted, an officer of special ability will be required for at least nine months to organize the first few of them, during part of which time he should study the working of such banks in other provinces.

272. *Co-ordination of the work of the Co-operative Department with that of other departments.*—We found that the Agricultural Department is working in close touch with the Co-operative Department, and has already done something in most areas to improve the material condition of members of rural primary societies. The Veterinary Department has also co-operated with good results. The scope for similar action by other departments, especially the Public Health Department and the Education Department, is likely to increase, and we trust that full advantage will be taken of the opportunities, which the co-operative organization provides for getting into close touch with rural needs.

PART VI.

CONCLUSION.

CHAPTER XVII.

General survey of recommendations and acknowledgments.

273. *Ground covered by our enquiry.*—Our task has been " to review the present condition of co-operative institutions in Bihar and Orissa and to make recommendations for the improvement of co-operation in the province ". We have worked under the shadow of the great financial cloud, which still hangs over the world. A time, when debtors are hard put to it to find a sale for their produce, when financing institutions collect dues with difficulty and have to pay high rates on their borrowings, and when Government's main preoccupation is retrenchment, is scarcely opportune for laying down the future policy of a movement that is so largely concerned with credit, or conducive to optimistic views of schemes for development. Yet this gloomy background for our enquiry may have the advantage of bringing out features, which might be missed among brighter surroundings. We have had further the benefit of the labours of four similar committees, constituted specially to consider co-operative problems in other provinces, and of the banking committees, which reviewed those problems from a more general standpoint throughout India. In particular we have been able to treat our enquiry as supplementary in many respects to the banking enquiry of our own province, in which two of our members were engaged. We have not felt it necessary to go over in great detail ground which was covered by that committee. We have touched on certain problems, notably those of agricultural indebtedness, co-operative marketing and the link between co-operative banking and the general money-market, very briefly, since they have been exhaustively dealt with in the Banking Committee Report. The discussion of others, for instance, the question of long-term finance, has been taken up at the point at which that report left it and continued with such modifications as have been rendered necessary by changed circumstances or lapse of time.

274. *Main financial recommendations.*—Our recommendations fall naturally into two broad divisions, those intended to secure a firmer financial basis for the movement, and those which concern its general conduct and development. The main financial recommendation is the separation of long-term credit from short or

medium-term. Here we go further than the Bihar and Orissa Banking Enquiry Committee, and hold that it is essential to free the existing organization of the burden of attempting to provide long-term credit and to build up, as quickly as the obvious difficulties permit, a separate co-operative organization of land mortgage banks to take over that burden. Pending the consummation of this aim we urge that the finance of the movement be strengthened by the issue of debentures by the Provincial Bank.

We have examined the existing provision for fluid resource and advise a somewhat higher standard. In view of the threat of substantial bad debts we would increase the proportion of profits set aside as reserve before distribution of dividends.

We have been struck by the absence of effective control over the borrowing policy of credit societies of all kinds which has resulted in the past in a serious glut of deposits, and have suggested means for co-ordinating financial policy throughout the movement.

We strongly support the doctrine that loan policy should be based rather on the capacity of the borrowers to repay out of income than on their capital assets, and think that the estimation of that capacity should be vigorously taken in hand.

The growing tendency of borrowers to fail to meet or actively to evade their liability to repay loans has forced us to recommend a strengthening of the machinery for recovery of dues. To enhance the ultimate security of agricultural credit, on which the movement mainly depends, we advocate relaxation of restrictions on transfer of holdings.

275. *Main non-financial recommendations.*—The principal defect in the movement, as it stands at present, is the failure, save in comparatively rare cases, to make the primary societies anything more than an inefficient link in a credit organization. So long as they remain under the strict tutelage of the central banks, operating through an agency mainly concerned with the distribution and collection of loans, the defect will continue. Our main recommendation on this side is the creation of a development staff, separated from the banking staff, and responsible to small local committees of keen co-operators, who are determined to make the societies genuinely co-operative. (Khan Bahadur S. Haque is unable to see any hope of advance in this matter except by purely official agency.)

While considerable advance has been made in recent years in providing training for the staff employed in the movement and for honorary workers, we think that much still remains to be done, and have indicated what further steps should be taken.

We have examined the position which the Bihar and Orissa Co-operative Federation at present occupies in the movement and find that it is a somewhat anomalous one. We have indicated the spheres in which it should operate effectively, and proposed means by which it may be expected to do so through standing committees. The majority of us think that affiliation to the Federation should be a condition of registration as a co-operative society. We have suggested a division of the cost of audit, development and training between Federation levies and Government contributions, which we think is more logical than the present arrangement, and have endeavoured to estimate the probable incidence of both.

We have sought to further the ultimate ideal of a self-governing organization by strengthening control both by the Provincial Bank and the Federation. But we feel that, as long as the tax-payer is called on to make a substantial contribution to the movement and the investing public rely for the safety of their money on some considerable degree of State supervision, it is necessary to strengthen also the power of Government to intervene in a timely and effective manner when abuses occur. With this aim we would provide, with due safeguards, for surcharge against officers of societies, who ignore statutory rules or their own by-laws, and for supersession, as a less drastic remedy than liquidation, of the directorate of a badly-managed central bank. The majority also propose a nominated element in the directorates of central banks and of the Provincial Bank.

For the Department itself we recommend an increase of experienced officers at the top who should be the main link with the central banks and more important primary societies. For the supervision of the ordinary societies we advocate a cheaper and more numerous staff, whose principal duty will be to establish direct touch with these societies, a duty with the discharge of which preoccupation with the affairs of central banks has latterly interfered.

276. *Recommendations concerning future development.*—The immediate future is so much obscured by financial clouds that we can only advocate a cautious advance in most directions and a halt in some. The credit societies must confine themselves, with very much restricted exceptions, to short and medium-term business. On these lines, especially if they can speedily be freed from existing long-term commitments by the creation of land mortgage banks, expansion can proceed both by starting new societies round the present nuclei or by enrolling more members in established societies. There is no doubt whatever that there is a great demand for credit societies among the rural population of the province. But in rural areas especially we strongly advocate continued attempts to bring into being societies, which are not wholly or even

mainly concerned with credit. The experience of sale societies and of stores has been so unfortunate, that we do not encouarge for the present further experiments on those lines, but have indicated the more hopeful forms of development both for the towns and the country.

277. *The essentials for future success.*—We have placed at the end of our report a detailed summary of our recommendations. While we recognize that all of them cannot be brought into force in the immediate future, we trust that they may prove to be trustworthy signposts along the road to prosperity for the co-operative movement in this province. Some of them, no doubt, run counter to strongly held views of earnest and experienced workers. We hope we have convinced them, but, if we have not, we still hope that they will be prepared to work those that find general acceptance. The future success of the movement does not, we are well aware, depend on the soundness of judgment or the fertility of invention displayed by a committee of enquiry, but on the zeal and energy of those, who are devoting themselves to this great endeavour to uplift the masses of India. We confidently expect that this zeal and energy will be displayed by the co-operators of Bihar and Orissa.

278. *Acknowledgments.*—In conclusion, we desire to acknowledge the help which we have received in our task from various quarters. We are particularly grateful to Mr. Ansorge, the Registrar of Co-operative Societies, the other officers of the Co-operative Department and the authorities of the Federation and the Provincial and central banks, for assistance, at all stages of our enquiry, in collecting materials for our study and making arrangements for the inspection of co-operative institutions under their control. We are deeply indebted to the witnesses for their very adequate replies to our somewhat lengthy questionnaire, supplied as they were within a period, which was far shorter than we could have wished to give them. We much appreciate the help given by those of them, whose written evidence was supplemented in the course of oral examination, and by others who gave us their views in the course of our tours in a less formal manner. We wish especially to thank the managers of central banks for collecting the family budgets and *haisiyat* statements for our enquiry into the repaying capacity of members of co-operative societies, and the Assistant Registrars who supervised this work. We are deeply sensible of our obligations to our numerous hosts, official and non-official, who dispensed generous hospitality to us during our tours. We have further to express our gratitude to the President of the Legislative Council for finding accommodation for our office, and to the local officers of Government for their kindness in making arrangements for our stay in circuit houses and inspection bungalows. We also desire to express our thanks to our head

assistant for his successful management of the office and the rest of our office staff for their hard and conscientious work cheerfully performed under the uncomfortable conditions of a temporary office. To our colleague Mr. Batheja, who combined with his duties of member those of the Secretary of the Committee, the rest of us desire to record our appreciation of the very efficient manner in which he performed those onerous duties and to offer him our thanks.

J. A. HUBBACK, *President.*

S. HAQUE.

S. N. SAHAYA.

*MIHIR NATH ROY.

H. R. BATHEJA.

H. R. BATHEJA, *Secretary.*

Dated the 2nd April 1932.

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* Subject to a note.

Note by Rai Sahib Mihir Nath Roy.

It is with some hesitation and regret but after very careful consideration that I have decided to write this note on two questions as they strike me to be important. I have from the beginning discussed them with my colleagues but regret we could not come to an agreement.

The two questions are (1) the suggested employment of two inspectors by the Provincial Bank, and (2) the starting of land mortgage banks in this province.

(1) With regard to the first I wish to make it clear at the outset that the views I have expressed here are my personal views and do not in any way bind the Directors of the Provincial Bank as I have not consulted them, and that I am not opposed to the appointment of inspectors as such; they will, I trust, be useful for collection of and supplementing *general* information about the central banks and other institutions as the main report says on page 81, paragraph 127. But I strongly feel that *ad hoc* employment of inspectors for enquiring into the loan applications *after* they are received from the Registrar will neither be useful nor advisable under the present circumstances as suggested in the main report in paragraph 199, page 127. That a financing bank should have its own full-fledged *field staff* for the purpose of satisfying itself as to the solvency of its debtors and should have facts and figures gathered by a staff responsible to it, when considering loan applications is very desirable and in some cases indispensable, none can question. But I am convinced that there is no half way house and half measures may even be injurious. In my humble opinion the proposed appointment of only two inspectors for that purpose is meagre when we bear in mind that the Provincial Bank has to cater for 67 central banks and about 150 societies and other institutions distributed and scattered over the whole province. The Bihar and Orissa Provincial Bank cannot, I am afraid, with its present resources, afford to have such a complete staff as is necessary for the due discharge of that responsibility and I consider therefore that the employment of two inspectors cannot relieve the Provincial Bank of the position it finds itself now, viz., of relying " solely on the advice of the Department in deciding whether to finance a particular bank " (vide paragraph 97, page 62 of the main report). Further the existence of two separate agencies for collecting such informations will merely result in duplication of work and may, in some cases, e.g., recommending the rejection of a loan, be embarrassing to the inspectors. It will, I feel, slacken the responsibility of the Registrar without the Provincial Bank having at its command the required adequate machinery for the purpose.

I venture to think that the citing of the case of the Burma Provincial Co-operative Bank in this connection is not quite apropos for in Burma there were no intermediary agencies such as we have here, viz., the central banks. The Provincial Bank in Burma mostly lent directly to the societies.

(2) In the matter of starting land mortgage banks I am now convinced that their establishment under certain conditions is necessary, but I consider the main report does not adequately stress that they are a very difficult business and that they cannot be started in a hurry. As the Resolution of the Joint Session of the Standing Committees of the Indian Provincial Co-operative Banks' Association and Institutes' Association held on the 30th, 31st December 1931 and 1st January 1932 lays down :—" Before establishing them in provinces where they do not exist careful investigations must be made by co-operators whether conditions for their successful working exist or will be forthcoming." This meeting, I may add, held its deliberations under the guidance of such eminent co-operators as Sir Lallubhai Samaldas and Mr. Ramdas Pantulu who have had several years' practical experience of the working of such banks in their respective provinces. The only other province which has co-operative land mortgage banks is the Punjab and about that province I shall only quote from the last Banaili Readership Lectures (1930-31). It says on page 78 : " The Punjab co-operators have, however, gone further than, I believe, those of any other province in organizing land mortgage banks, whose sole object is to produce funds for repayment of old debt, land redemption, land improvement and very occasionally land purchase. These are still in the experimental stage and have advanced only Rs. 32 lakhs so far. It is a disquieting feature that one in every three borrowers from these banks is behind hand with his *kists*."

Further it will be interesting to know that the State of Baroda had in 1924 a committee to enquire into the conditions obtaining there and though the committee after going into the question very thoroughly framed rules, etc., the State has not yet started a single mortgage bank. In my opinion therefore before the experiment is taken up in this province, the whole ground should be thoroughly and carefully prospected and explored by some agency specially deputed for the purpose. The learned lecturer of the Patna University Banking Lectures of 1930-31 on the same page when speaking about starting of land mortgage banks in our province lays down these weighty words which hold good even to-day. " It is very doubtful whether in our province a separate organization for long-term credit intended principally to repay old debt is desirable. It is not easy in most places to get together a good directorate for one co-operative bank, and it would seem to be better to allow central banks to combine this banking function with the supply of short and medium-term credit."

MIHIR NATH ROY.

Recommendations on which the Committee are not unanimous are marked with an asterisk.

CHAPTER IV.—Rural Co-operative Societies.

General.

Recommendation— No.		Para. No.
1	As a check against domination by a few individuals vigilance committees for the purpose of watching the work of the *panchayat* might be set up in the larger societies	46
2	The size of societies might be enlarged ...	47
3	Societies should not be started in new areas where success is very doubtful. Expansion from a nucleus is preferable	48, 49

Finance.

4	Loans should not be based only on *haisiyat* figures but repaying capacity should also be taken into consideration	51, 52, 54
5	Where repaying capacity is insufficient, recourse to wholesale liquidation should be avoided until more attempts have been made to increase repaying capacity by introducing proved advances in agricultural practice	55, 56
6	The policy of attempting to free each and every member of a co-operative society from outside debt must be definitely abandoned except for clearing of small debts incurred on very onerous terms, unless its fulfilment can be transferred to a separate organization of land mortgage banks. No money should be advanced for purchasing fresh lands ...	57
7	In Orissa and Chota Nagpur, more short-term business in grain or money-lending is recommended as a profitable line of activity	58

No.		Para. no.
8	"*Haisiyat*" registers should be maintained on an improved basis. They should be revised yearly. Cattle should be included in the *haisiyat* but the value of the cattle should not be taken into account when granting a loan. Loans should not be granted beyond the limit of one-fifth of the value of *haisiyat* assets even where repaying capacity indicates a possible higher limit	59
9	The maximum borrowing limits of members should be fixed by the primary society at its general meeting and of the society by the financing central bank in consultation with the department. Should the maximum of a member so fixed be exceeded, *panches* of the society should become automatically guarantors for the excess portion of the loan ...	60
10	The system of "normal credits" both for members and a society should be more widely used	61
*11	No mortgage is necessary for either short or medium-term loans. Rai Bahadur Shyam Nandan Sahay and Rai Sahib Mihir Nath Roy dissent from this view and would take such a mortgage for every loan except short-term loans of less than Rs. 100 ...	63
*12	To facilitate recovery of dues, restrictions on transferability of holdings in Bihar, in the Orissa coast districts and possibly also in the Sambalpur district should be relaxed. Rai Bahadur Shyam Nandan Sahay and Rai Sahib Mihir Nath Roy are in favour of relaxing them in Chota Nagpur also ...	65
	Non-credit agricultural societies.	
13	Co-operative sale societies are discouraged as the experience of this province in this respect in the past has been unfortunate. The starting of co-operative warehouses, however, on the lines suggested by the Bihar and Orissa Provincial Banking Enquiry Committee, as part of a general scheme to improve the facilities for granting sound credit during the period of marketing is supported	67
14	Dairy societies are desirable provided favourable conditions exist	68
15	"Whole village" societies for the sale of agricultural requirements to members should be developed on sounder lines than hitherto ...	69

No.		Para. no.
16	Rent-paying and irrigation societies are well worth a trial in other suitable parts of the province. A start should be made with societies for the consolidation of holdings	70, 71
17	Grain *golas* in backward areas with local deposits of grain should prove successful ...	72
	Guarantee Unions.	
18	Guarantee unions on their financial side are a failure. There is no objection to their continuance where the constituent societies really desire to retain them. The possibility of reorganizing them as purely supervisory unions such as exist in Bombay and Madras should be kept in view ...	73
	CHAPTER V.—Urban and other non-agricultural societies.	
	Amla and employees' societies.	
19	Amla and other employees' societies should not be too small, nor yet so large as to become uncooperative. Unwieldy Amla societies should be split up and the Tisco societies should not be organized into a single society	80
20	Where a large number of employees' societies are concentrated at a single centre, the problem of preventing one person borrowing from more than one society and of co-ordination of deposit and lending rates should be met by organizing a federation or a supervisory union which should enact a rule that no member should belong to more than one society	80
21	The work of serving as a balancing centre for the plus and minus Tisco societies may be taken over by a branch of the Provincial Co-operative Bank	80
22	More attention should be paid to the provision of facilities for collecting the savings of the employees of the Companies working in Jamshedpur	80
23	The protection against attachment for debt recommended by the Royal Commission on Labour for the provident funds of industrial workers should not extend to debts due to co-operative societies	80

No.		Para. no.
24	Members of industrial employees' societies who borrow should be asked to enter into a contract pledging their provident funds on behalf of their heirs in the event of their death	80
25	No excessive loans however should be encouraged and societies should decline to grant loans for purposes for which a member can borrow against his provident fund	80
26	More industrial wage-earners' societies should be started in the industrial areas outside Jamshedpur, specially in the coalfields with such help as the Industries Department and the managers of industrial concerns can give	81
27	The idea of a debt census for industrial employees is commended	81
28	All industrial employees' societies should be constantly supervised by their official superiors ...	80
29	There should be a closer control and supervision over provincial employees' associations to check undesirable tendencies amongst them	82

Traders' banks and artisans' societies.

30	Traders' banks should be called "Peoples' banks" and clearly distinguished from artisans' credit societies. Their working should be carefully watched and their managers should have practical experience of the working of modern commercial banks	83, 84
31	Artisans' sale societies dealing with commodities exposed to worldwide competition should be discouraged as long as they have no suitable marketing organization	85
32	Loans should be advanced only to artisans' credit societies whose operations are small and whose payments are regular on account of an assured market. Such loans should preferably be paid in kind	85

Societies for depressed classes.

33	The department should pay more attention to societies for the depressed classes, specially those for municipal employees, and examine closely the causes of their failure where they are not working satisfactorily. Thrift and better-living societies should be started for them	86

No.		Para. no.
34	The existing credit societies for fishermen should be replaced as far as possible by better-living societies	86
	Housing societies.	
35	There is scope for housing societies in the larger towns of Bihar, but they cannot be financed adequately until long-term capital is available. The starting of such societies should wait until a provincial land mortgage corporation comes into being	86
	Non-credit non-agricultural societies.	
36	Production and sale societies are extremely risky and should be started with great caution or not at all at present	87
37	Supply societies and consumers' stores should only be started with great caution and proper safeguards. There is some scope for starting consumers' supply societies for commodities in which price is not so much a consideration as quality ...	88
38	Stores of a general character might well be started in industrial areas provided that they do not expect the support of central banks or the Provincial Bank	88
39	Thrift societies on the Punjab model, health societies and better-living societies in urban areas are desirable	89
	CHAPTER VI.—Finance, General.	
	Long-term finance.	
40	The establishment of land mortgage banks with as much expedition as is compatible with sound organization is recommended	94
41	In the interval, it would be prudent to strengthen the finance of the movement by the issue of debentures by the Provincial Bank with a Government guarantee of interest throughout their currency	94
42	It would further be advisable for central banks to induce their depositors to lengthen the term of their deposits even by a moderate increase in their present interest rates	94

No.		Para. No.
43	Meanwhile central banks should take promptly the necessary steps to review their position in respect of their long-term commitment, to restrict their new business closely to short and medium-term loans, and generally to prepare for the starting of land mortgage banks	94
44	Financial assistance or support by Government for co-operative institutions which are not prepared to put their house in order is not recommended ...	94
	Relations between the Provincial Bank and central banks.	
45	The central banks should be encouraged to stand on their own legs and even allowed to have direct relations with reliable commercial banks ...	97
46	The Provincial Bank should no longer rely solely on the advice of the department in deciding whether to finance a particular bank, but should also arrange to collect information through its own inspectorate	97
47	Both Provincial and central banks should act as business institutions with a due regard for co-operative principles	97
48	The Provincial Bank should be empowered by statutory rule (*i*) to call for returns, papers, and statements from all central banks, and important limited liability societies, (*ii*) to insist on their inspectors having access to all papers required for an adequate inspection of such banks and societies, (*iii*) to fix their borrowing limits, and (*iv*) to determine from time to time their rates for all classes of deposits after taking into consideration local circumstances	98, 101
	Relations between central banks and primary societies.	
49	The borrowing limits of primary societies should be fixed by the central bank in consultation with the department	99
50	The conditions and rates of deposits of primary societies should be determined by the Registrar on the advice of the central bank, subject to the provision that these rates should not exceed the lending rates of the central bank	100
51	The central bank should have the right of calling for returns, papers and statements from the primary societies and should also receive a copy of the audit note from the department	99

No. PARA. NO.

Deposit and other banking business of central banks and primary societies.

52 When conditions are favourable, the Registrar should consider the advisability of removing the present restrictions on the current account, bill collection and remittance business of central banks after satisfying himself that proper safeguards will be observed and undue competition with commercial banks will be avoided 102

53 The present restrictions on outside deposits for central banks are not conducive to their best interests 103

54 Local deposits of primary societies should be encouraged by all means, subject to such safeguards as may be necessary for sound development. Some of the present restrictions on such business should be removed 104

55 To facilitate quick adjustments in reponse to changes in the money-market, the deposit rates of central banks should be fixed by the board of directors, and not by the annual meeting of shareholders. Failing quick action on their part, they should be fixed by the Provincial Bank. The rates for primary societies should be fixed by the Registrar 107

56 The present rate of 4½ per cent on savings bank accounts of central banks should, where conditions of local competition permit, be reduced to 4 per cent 108

57 Premature withdrawal of deposits should be discouraged by suitable means 109

58 Central banks should be allowed to make advances against deposits by an order of the local Government under section 46 109

59 The rate on deposits for short periods under the " one date deposit " system should be lowered 109

60 Selected central banks might be allowed to open current or savings bank accounts for such public bodies as municipalities, district boards, educational institutions and charitable trusts ... 110

61 Cheap finance may be obtained by discounting, during the slack season, co-operative paper of not more than 9 months' usance in the general money-market 110

No.		Para. No.
	Fluid Resources.	
62	The " one date system " should be retained. The Registrar should induce central banks to examine whether they should not adopt different fixed dates under that system more suited to the agricultural conditions of their areas	111
63	The Registrar and the Provincial Bank should enforce more effectively the keeping of the prescribed standard of fluid resource by central banks against their savings bank and fixed deposits	113, 114
64	Where central banks and other limited liability societies are allowed to open current accounts, 50 per cent fluid resource should be maintained ...	115
65	Primary societies of unlimited liability accepting deposits from non-members should either arrange with their central banks to keep their fluid resource for them on a commission basis or should invest it in postal cash certificates	115
66	Junior auditors in their two-monthly audit should certify the correctness of the statement of fluid resource sent by central banks and other limited liability societies every month to the Provincial Bank. Fluid resource should only be drawn upon for the purpose for which they are intended	115
67	No change is required in the fluid resource standards of the Provincial Bank	116
68	The Provincial Bank should use all its powers to secure that the standards of fluid resource recommended by us are maintained by all banks. The " one date system " and the date fixed under it should only be changed with its consent ...	117
	Reserves.	
*69	Statutory reserve for all classes of societies should be raised to 35 per cent, the additional 10 per cent being assigned to cover bad debts. This higher statutory standard may be relaxed by order under section 46 when adequate provision against bad debts has been made. Mr. Batheja does not wish to place this increase on a statutory basis ...	118
70	The statutory reserve for Tisco societies at Jamshedpur may be reduced to 10 per cent, when 20 per cent of the working capital has been accumulated as reserve	118

No.		Para. No.
71	Societies should be permitted to invest 50 per cent of their reserves in their own business, 10 per cent should be invested outside the movement altogether and the remainder should be placed with other co-operative institutions, either as holdings of share capital or fixed deposits	120
72	No drawing on the reserve account should ordinarily be permitted without the sanction of the Registrar, who should keep the Provincial Bank informed of orders passed by him	120
73	Except for the industrial employees' societies, the time has not yet arrived when the process of building of reserves should be slowed down ...	120
74	All classes of societies, primary, central and provincial, should set aside 10 per cent of their annual profits, in addition to the present statutory provision for reserve, as a provision against bad debts, until that provision reaches 10 per cent of the total loans outstanding	121
	Miscellaneous.	
75	The form of the balance sheet of central bank should be so amended as to exhibit clearly profits which are available for distribution and profits which are not so available	122
76	Wilfully defaulting members of societies should be weeded out by all possible means. Others whose default is due to the present depression should be helped through the present crisis	123
77	The 5 to 6 per cent margin between the lending and borrowing rates of central banks should be materially reduced	124
	CHAPTER VII.—Provincial Co-operative Bank.	
	Loan policy.	
78	The Registrar should continue to discharge his present function of recommending loan applications of borrowing banks, and the Provincial Bank should not entertain any application without such a recommendation. But the Provincial Bank, in the proper discharge of its responsibilities, should refuse an application if its corporative judgment leads it to think that to grant it will seriously endanger its own financial position	127

No.		Para. No.
79	The Provincial Bank should refuse assistance to a central bank if its difficulties be due to past mismanagement, and be such as to require assistance on a scale which is almost certain to involve the Provincial Bank in serious financial loss or jeopardise its own existence, unless Government on special grounds can be induced to guarantee the loan required	127
80	Should there be a general depression, like the present affecting a large number of banks at the same time and Government financial assistance should become necessary, it would be best rendered through and at the risk of the Provincial Bank ...	127
(81)	The future Managing Director of the Provincial Bank should preferably be a business man or a trained banker	130
82	The duties and powers of the Secretary, the Managing Director and the working committee should be clearly defined by rules	130
*83	To supply more financial experience and business ability, the members of the board of directors of the Provincial Bank should be increased by two to be nominated by Government	131
84	On an improvement of the general financial position, the question of dispensing with the guarantors should be considered	132
	Finance Committee.	
85	The powers of the Provincial Bank over the central banks should be exercised through a special finance committee of six directors, on which all the three elements of the bank's directorate should be equally represented	133
	Share capital.	
86	Though inter-locking between the Provincial Bank and the central banks is not at present a serious weakness, any feasible arrangement for minimising the risk should be adopted ...	134
*87	There is no objection to raising more capital for the Provincial Bank from individuals to a moderate extent, so long as the representation of individual shareholders on the directorate is limited by the by-laws to prevent it reaching or approaching a controlling interest. Rai Bahadur Shyam Nandan Sahaya dissents from this view. Rai Sahib Mihir Nath Roy reserves his opinion	134

No. PARA. NO.

Finance.

88 The Provincial Bank should develop its short-term borrowings specially by discounting co-operative paper in the general money-market so as to make its business more profitable. It should float debentures only as a temporary measure until they are taken over by a separate Provincial Land Mortgage Corporation 136

89 The Provincial Bank should consider the advisability of tapping fresh deposits by starting branches at Cuttack and Jamshedpur 137

90 The Provincial Bank should consider the advisability of reducing its rate of dividend in order to build up a larger bad debt reserve account ... 138

CHAPTER VIII.—CENTRAL BANKS.

General.

91 Where a central bank pursues a course of action, in spite of protests, which cannot commend itself to sensible co-operators, there should be effective means of pulling it up, before a disaster occurs, which may seriously affect the credit, moral and financial, of the whole movement 139

92 Though we are not in favour of an active policy of amalgamation, advantage might be taken of the existence of weak and moribund banks which have no chance of functioning actively to amalgamate their business to that of a neighbouring bank, perhaps treating the amalgamated bank as a branch 140

Constitution.

93 The ordinary shareholders' element in the directorate of central banks should, where it is half, be increased to two-thirds of the elected portion of the directorate 142

94 The minimum qualification for being elected as a preference director of a central bank should be the possession of fully paid-up shares worth Rs. 100 142

95 There should be a nominated balancing element on the directorate of a central bank 142

No.		Para. no.
*96	Of the nominated directors, one should be a large depositor, one an influential worker who is temperamentally disinclined to face the trouble and worry of an election, or a non-official selected for his banking or business knowledge, and the third a revenue official, if not already on the board *ex-officio*	142
97	We approve of the rule recently adopted by most central banks that serious default to any co-operative society should be an absolute disqualification for election as a director of a central bank ...	142
98	The working committee of a central bank should in future consist of not more than 10 members and be split into two sub-committees, a development sub-committee and a finance sub-committee, the two meeting together to discuss matters common to both	143
99	The development sub-committee should have power to co-opt other members, inside or outside the board of directors, interested in development work	143
100	The finance sub-committee should preferably consist of not more than five directors of whom one at least should be drawn from each of the nominated, preference and ordinary divisions of the board ...	143
	Staff.	
101	The duties, position and powers of the various classes of officers of a central bank should be clearly defined in its rules of business	146
102	In the bigger banks having a working capital of more than Rs. 5 lakhs or which can afford to have a separate indoor manager, the honorary secretary should be called the honorary managing director, and the indoor manager should be called the Secretary, on the analogy of the designations in use in the Provincial Bank, and invested with corresponding powers, which should be clearly defined ...	146
103	The field or outdoor manager in such bank should be designated " bank inspector ", his duty being to inspect the work of the banking supervisors	146
104	The word " manager " should be exclusively reserved for the paid executive head who does both outdoor and indoor work for the smaller banks. The honorary secretary of such banks should be designated " honorary managing director ". Competent accountants should be appointed to attend to indoor work in the unavoidable absence of the manager	146

No.		Para. No.
105	Secretaries of big central banks should be trained bankers and have approximately the same or slightly less status and emoluments than the inspectors of the Provincial Bank	146
106	" Bank inspectors " of big central banks should take their orders from the directorate through the secretary	146
107	A special committee of experienced workers in the movement should draw up standard establishments for different grades of central banks ...	146
108	Secretaries and managers of banks should be given full facilities to explain proposals to the board of directors	147
109	The practice of some primary societies paying for shares of central banks out of borrowed instead of saved capital should be discouraged by suitable means	148
110	Central banks should not refund share money to a liquidated primary society until the shares have been sold to another society	149
111	Individual and society shareholders should be treated alike in declaring dividends on shares ...	150
112	Societies should get a concession in the rate of interest charged to them, up to the extent to which their reserve is placed in deposit account with the central bank	151
113	Any reduction in the lending rate of the Provincial Bank, should, as soon as possible, be passed on by central banks to societies, by way of rebate, and not absorbed in their own management charges ...	151

CHAPTER IX.—Land Mortgage Banks.

General.

114	Land mortgage banks should be started to take over as soon as possible those long-term commitments of the existing central banks, for which the security is reasonably good	159
115	These banks should deal directly with the borrower and not through the intermediary of an ordinary primary co-operative society	159

No. PARA. NO.

116 The existing central banks should separate defaulters of their primary societies into wilful defaulters and others, and the latter again into those who have no chance of improving their repaying capacity even if the term of repayment is greatly extended, and those who could repay if they got such a concession. The last sub-class should be taken over as clients of land mortgage banks ... 160

117 The land mortgage bank may be located in the same building as the central co-operative bank and may even have a common element in its staff and directorate, but the financial individuality of the land mortgage bank should in any case be kept distinctly separate 165, 168

118 Ordinary primary co-operative societies, in order to meet the difficulties of the transition period, should endeavour to strengthen their position by enrolling new solvent members requiring short-term loans, while the central banks should endeavour to start new societies composed of such members. Further a strong effort should be made to increase repaying capacity by the adoption of agricultural improvements 163

Constitution.

119 Government should nominate in the first instance one-half of the directorate of a land mortgage bank, the other half being elected by the directorate of the central bank concerned. Later, one-third of the directorate should be elected by the borrowing shareholders, the proportion of Government and central bank representatives being reduced to one-third each 165

120 Government nominees should include persons representing the interests of the debenture holders and of the Provincial Bank or later the Provincial Land Mortgage Corporation 166

*121 Every borrower from a land mortgage bank should be obliged to take out shares equal to 5 per cent of his loan.

Rai Bahadur Shyam Nandan Sahay thinks 1 per cent is sufficient.

No outside share capital should be invited ... 164

No.		Para. No.
	Finance.	
122	Land-mortgage banks should be financed by means of debentures floated in the first instance by the Provincial Bank and later, by the Provincial Land Mortgage Corporation	164
123	Government should guarantee the debenture interest (but not the principal) for the whole period of their currency, and may be asked to take up a block at a favourable rate of interest ...	164
124	Money raised should pass on to the land mortgage banks at ½ per cent above the rate of issue and to the ultimate borrower at 3½ per cent above that rate, the period of repayment being 5, 10, 15 or 20 years according to the repaying capacity of the borrower	166
125	Loans should be limited to a maximum of Rs. 5,000 and to one-third of the value of the mortgaged security	166
	Legal impediments.	
126	In order to remove the present uncertainty about the value of mortgaged security arising out of the existing tenancy laws, restriction on the transferability of occupancy holdings in Bihar, and the Orissa coast districts, and possibly also in Sambalpur, should be relaxed	170
127	Land mortgage banks should not be started in Chota Nagpur and the Santal Parganas, until conditions in those areas permit the relaxation of restrictions on alienation. In these areas there should be very strict adherence to the principles laid down in the Registrar's circular of January 1931 ...	170
	Supplementary.	
128	After the existing commitments of the co-operative movement have been successfully taken over by land mortgage banks, they should be used to help the agriculturist generally to redeem his land, to liquidate his old debts, to make improvements of a substantial character, and possibly in special cases to extend his operations by the purchase of more land	169
129	A special officer should be appointed to carry out all preliminary work connected with the starting of land mortgage banks. He should study at first hand the working of land mortgage banks in other provinces	167

No. PARA. NO.

CHAPTER X.—AUDIT.

Control over audit

130 The Indian Central Banking Committee's audit scheme is not suitable for the conditions existing in this province 175

131 The assistant auditors and junior auditors should be placed under the direct control of the Chief Auditor and the Registrar, and made whole-time Government servants 176

132 The Federation should be given more real powers over the local auditors 176

133 All cases except urgent ones relating to control of local auditors should be referred to a small committee of the Federation Council. The Registrar should reserve his right to reject the advice of this Committee, but with experience it might be proper to leave the decision finally to such a Committee ... 177

Commercial audit.

134 It is not desirable or financially practicable to introduce commercial audit of co-operative banks and societies except perhaps the Tisco societies at Jamshedpur 178

135 The Registrar should have, for exceptional societies, the discretion either to charge lower audit rates or allow such societies to be audited by professional auditors, provided his other responsibilities are not thereby impaired 178

136 The Provincial Bank should continue to be audited as at present every six months by the Chief Auditor and annually by chartered auditors completely independent of the Bank and Government 178

Training and quality of audit.

137 The present audit staff is adequate in number but it is not sufficiently qualified for its work ... 179

138 The present emoluments of assistant auditors are excessive and require to be revised ... 179

139 All existing assistant auditors should be required to obtain the Bombay Government Diploma in Co-operative Accountancy. Leave facilities should be granted for this purpose 179

No.		Para. No.
140	Junior auditors should also possess the same qualification before they are promoted from the rank of local auditors	179
141	The emoluments of local auditors are excessive and should be revised as suggested by the Federation Retrenchment Committee	180
	Cost of audit.	
142	The cost of auditing central banks by assistant and junior auditors should be entirely borne by Government, while the Federation should bear the whole cost of the original audit of primary societies	181
143	Any savings in the Government audit contribution to the Federation should be diverted to other needs of the Federation	181
	Audit methods.	
144	A copy of the audit note of a central bank should be made available to the Provincial Bank which should preserve it for ready reference ...	182
145	The audit of a co-operative bank or society should be constructive as well as critical ...	182
146*	The audit notes of primary societies should wherever possible, be prepared in the script and vernacular current in the locality in which they are situated. Khan Bahadur Saghirul Haque dissents	183
147	The audit note of primary societies should be simplified and prepared in triplicate and a copy of each should be supplied to the Assistant Registrar, the financing bank and the primary society ...	183
148	The disposal of audit notes of primary societies should be expedited by a personal consultation between the Assistant Registrar and the authorities of the financing bank	183

CHAPTER XI.—Development, Supervision and Control.

(*a*) DEVELOPMENT.

General.

149	The scheme of development prepared by Mr. N. K. Roy and recommended by the Federation is impracticable but may be tried on a small scale	185-189

No.		Para. No.
	Bank staff.	
150	The primary field staff of a central bank consisting of inspecting clerks should be divided into banking supervisors and development supervisors ...	192
151	The banking supervisors should have less qualifications and emoluments than the present inspecting clerks, and 3, or possibly 4, of them should be supervised by officers called " banking inspectors " in larger banks	192
152	Each banking supervisor should look after 40 to 60 societies	192
153	The bank field staff should be under the complete control of the central bank, ordinarily acting through a Finance Sub-Committee, except that they will be licensed by the Registrar	192
	Development staff.	
154	The development supervisors should have better qualifications, training and emoluments than the present inspecting clerks	193
155	Each development supervisor should be in general charge of 30 to 40 societies and in special charge of about five out of this number close to his headquarters village with a view to their intensive development and establishment as rural reconstruction societies. He should also organize new societies	193
156	The development supervisors should be under the immediate supervision of a Development Sub-Committee of the central bank	193
	Charge Committees.	
157	For discipline, as well as for posting to and transfer from a particular central bank area, the development supervisors should be subordinated to a Charge Committee, operating throughout the area of an Assistant Registrar's charge	194
158	Each Charge Committee should be composed of one member from each central bank with the Assistant Registrar as Member-Secretary	194
159	The Charge Committee should meet once a month in rotation at the headquarters of each central bank, or other convenient place in the area in which that bank operates	194

No.		Para. no.
160	Members of Charge Committees should be *ex-officio* members of Divisional Federation Boards and delegates to the Federation Congress and should supply several of the members of the Federation Council	194
161	Grants from the development levy of the Federation may be allotted to the Charge Committees for administration	194
162	A development inspector should be attached to each Charge Committee	194
163	Assistant Registrars should pay more attention to the development of primary societies ...	194
164	One or two additional members, e.g., the District Officer, if he is particularly interested in co-operation, or an agricultural or veterinary officer, may be co-opted as members of a Charge Committee	194
165	In the case of a transfer of a bank employee from the jurisdiction of one committee to another, the matter may be settled amicably by the two committees; but where they fail to agree, the matter should be decided by the Federation Service Committee	194
	*Khan Bahadur Saghirul Haque generally dissents from recommendations nos. 157—165 ...	195

(*b*) CONTROL.

Control by the department.

166	The central banks should continue to be inspected by Assistant Registrars, but their suggestions should be scrutinized by Deputy Registrars ...	196
167	When the Registrar finds it necessary to issue circulars to the central banks, he should distinguish clearly between *orders*, which he has a statutory right and duty to issue and enforce, and *advice* which a particular bank may find inapplicable in its special conditions	196

Control by the Federation.

168	There should be statutory sanction to back recovery of levies imposed by vote of the Federation Congress	197

No.		Para. No.
169	The resolutions of the Federation Congress, if accepted by the Registrar and Government, should be circularized by him as his *orders* or *advice*, indicating in both cases that the Federation has accepted the principle underlying them ...	197
	Control by the Provincial Bank.	
170	It should be legally enacted that the rate at which central banks may borrow from the outside public, should not, without the consent of the Provincial Bank, exceed the rate, at which the Provincial Bank is prepared to lend at that time for the same period	198
171	It should be further enacted that the maximum borrowing limit of a central bank should be subject to the approval of the Provincial Bank ...	198
172	The Provincial Bank should appoint two inspectors who will supply it with independent information and advise it on the question of local rates of borrowing	199
	Other control.	
173	Provision should be made under the Act for a power of surcharge on the controlling authorities of any co-operative society, resting with the Registrar, subject to appeal to Government, in case of clear breach of statutory injunctions resulting in pecuniary loss to the society	200
174	Such surcharge should be enforced not only in the course of liquidation but also after a statutory inquiry or inspection	200
175	Government should have the power to supersede the directorate of a central bank, and appoint a person to manage it with the help of an advisory body	201
176	Such supersession should only be made after a statutory enquiry conducted by a committee consisting of the Registrar or his nominee, a nominee of the Provincial Bank and a nominee of the Charge Committee, in whose area the central bank is situated	201
177	The superseded bank may be managed by an inspector of the Provincial Bank	201

No. PARA. NO.

CHAPTER XII.—TRAINING.

The Co-operative Training institutes.

178 The Sabour and Cuttack Co-operative Training institutes have been planned on right lines, but while adequate for the junior employees of the Federation and central banks, are not sufficiently equipped for training the higher staff of the co-operative movement 204

179 The arrangement for a common course of studies for inspecting and bank clerks cannot be commended 205

180 The question of improvement of the training in theoretical and practical banking at both institutions and of local auditors at Cuttack should be considered 205

181 It should be considered whether both the institutions should not be confined to the training of inspecting clerks and bank clerks and further examined whether a less expensive and more practical staff should not be engaged ... 205

182 The Governing bodies of the institutes should be replaced by a Training Committee of the Federation containing an adequate academic element ... 205

183 The Durga Prasad Institute, now at Sabour, should be shifted to Patna, either, near the Veterinary College at Phulwari, or, near the Provincial Bank or the Federation office 205

184 To prevent an excessive supply of co-operative employees, the number of admissions to the two institutes should be limited 206

185 The institute should prepare some of the students for the commercial examination of the London Chamber of Commerce or examinations of similar standard 206

Training for primary societies.

186 Mr. B. B. Mukharji's Village Co-operative Education scheme is not feasible. Banking supervisors and banking inspectors should supply the training in banking and accounting methods to primary societies, while training in development should be imparted by the development staff under the supervision of Charge Committees and Development Committees of central banks 209, 210

No. PARA. NO.

Training of employees of central banks.

187 Banking and development supervisors of central banks should receive the Sabour and Cuttack training, supplemented by three months' practical work under an experienced development inspector ... 211

188 Development inspectors should be given a special advanced course, in addition to the training for development supervisor, before being confirmed in their appointment 211

189 For bank clerks the Sabour training should be either supplemented or entirely replaced by an examination for the commercial certificate of the Patna University or of the London Chamber of Commerce combined with a practical training as probationers in a co-operative bank. If they wish to rise higher in the banks' service, they should take Part I of the examination for the Associate Membership of the Indian Institute of Bankers 211

190 The manager of a second class bank and a banking inspector should ordinarily be a graduate in Economics and should have passed at least Part I of the examination of the Indian Institute of Bankers, and further should have received a three months' practical training at the Provincial Bank or a first class central bank, and training of the same duration in rural work at Sabour ... 211

191 Managers of Peoples' Banks should receive the same training as the manager of a second class bank without the training in rural work 211

192 Secretaries of first class co-operative central banks and the inspectors of the Provincial Bank should pass both the parts of the Indian Institute of Bankers' examination, and should have, besides, six months' practical training at the Provincial, or some recognized joint stock bank 211

193 The Secretary of the Provincial Bank must be not only a trained banker of the highest qualifications, but must be a man of outstanding merit ... 211

194 The Chief Accountant of the Provincial Bank should hold the Bombay Government Accountancy Diploma 211

No. PARA. NO.

Training of auditors.

195 The assistant auditors should ordinarily be graduates in Arts or Commerce of a recognized University and should in addition possess the co-operative or the ordinary accountancy diploma of the Bombay Government 212

196 Arrangements should be made with the Bombay Government Accountancy Diploma Board to recognize audit service in the Bihar and Orissa Co-operative Department as practical training for the Co-operative Diploma 212

Further co-operative training facilities in the province.

197 Government and the Federation should investigate the possibilities of adapting the commercial courses of the Patna University to suit the co-operative training needs of Assistant Registrars, secretaries and managers of central banks and assistant and junior auditors, and providing teaching facilities for higher co-operative education as well as ordinary commercial training, in the Economics Department of the Patna College 213

198 Co-operation as a special subject for the Matriculation examination is not recommended, but a short course of co-operative instruction might be given in Guru Training Schools 213

Training for honorary workers.

199 A special short course of training should be arranged for honorary workers at Sabour and Cuttack 214

200 A stock of standard books on co-operation should be kept at Sabour and Cuttack and at Patna (either at the Federation office or at the Provincial Bank) for being lent out on suitable terms to honorary workers 214

Training for officers of the department.

201 Assistant Registrars should be required to pass during the period of their probation at least Part I of the Indian Institute of Bankers' examination or any other examination of an equivalent standard which can be taken without residence at an educational institution 215

No.		Para. No.
202	The passing of Part II of the Indian Institute of Bankers' examination should be made compulsory before selection for the post of Deputy Registrar ...	215
203	All Assistant Registrars should undergo a practical training in banking for one month in the Provincial Bank and another two months in a first class central bank	215
204	The authorities controlling admission to the examinations of the Institute of Bankers should be approached to allow Assistant Registrars, recommended by the Registrar, to sit for these examinations	215
205	All gazetted officers of the Co-operative Department, including Deputy Registrars, should be encouraged to pass the Bombay Government Co-operative Accountancy Diploma examination by the offer of suitable rewards	215
206	Assistant Registrars might attend advanced lectures on Co-operation and Agriculture which may be arranged by the Patna University for the M.A. examination from time to time	215
207	A prospective Registrar should learn his work under the direct control of the permanent Registrar	215
208	Only first class men should be appointed to the important post of Registrar	215

CHAPTER XIII.—Bihar and Orissa Co-operative Federation.

Powers and duties.

209	The Registrar-Governor should refer audit questions to the Council of the Federation for their advice, and keep that body generally informed of the action he has taken. The Council of the Federation, or a committee of it, should consider, along with the Governor, appeals against orders of dismissal of the members of the bank staff of central banks, difference of opinion being referred to the Congress	218
210	The working of the Charge Committees should be the concern of the Council of the Federation, and the records of their proceedings and their reports should be considered by it. Close supervision of details however is deprecated	218

No. PARA. NO.

211 The funds, required for the development under the control of Charge Committees and their distribution to the separate areas, should be voted and controlled by the Federation Congress. Appeals against dismissal from members of the staff should go to the Council, or, if the Governor disagrees, to the Congress 218

212 The Co-operative Training Institutes should be controlled directly by the Federation through the Council or a committee of that body 218

213 The executive functions of the Federation should be discharged through three committees—a Service Committee, a Training Committee and a Finance Committee, the work being co-ordinated by the Council 218

Congress.

214 The cost of the meetings of the Congress should be reduced by sending fewer delegates or by paying a lower class of fare for travelling or by meeting once in two years 219

Divisional Boards.

215 Divisional Federation boards' meetings should be held only at the expense of the delegates ... 219

216 Divisional Federation boards should not encroach on the sphere of the Provincial Bank and the Federation by issuing binding instructions to their members 219

Orissa Federation.

217 The proposal to have a separate Federation for Orissa is supported in principle. Its financial aspects should be investigated by a committee of the Federation Congress 220

Propaganda staff.

218 The ten propaganda officers of the Federation should be reduced from ten to three who should be attached to the three Deputy Registrars ... 220

Federation Press.

219 The Federation Press should be sold if a suitable price can be obtained 220

No. PARA. NO.

Finance.

220 Government should bear the whole cost of superior audit and the superior service for development and general administration. The rest of the expense should be borne by the Federation ... 221

221 Societies that do not require close supervision either on the audit or on the development side should not be overburdened with levies ... 221

*222 All societies should be obliged to affiliate themselves to the Federation and existing societies which are not members should be brought in under threat of deregistration. Rai Sahib Mihir Nath Roy dissents 222

*223 Compulsory levies imposed by the Federation should not require the approval of Government. Mr. Batheja and Rai Sahib Mihir Nath Roy dissent 222

224 If the membership of the Federation continues to be voluntary, the Registrar should have a statutory power to recover the cost of audit from societies which stand out 222

CHAPTER XIV.—RECOVERY OF DUES, AWARDS AND LIQUIDATION.

(*a*) RECOVERY OF DUES.

General.

225 An attempt to realize dues indiscriminately, while the present price levels prevail, is deprecated. But where members and societies are in a position to pay, they should be pressed to do so 224

226 A central bank should have power to require an affiliated society to apply for an award against one or more of its individual members 226

227 The Registrar and his subordinates should be empowered to distrain and sell the movable property of a member of a registered society, who is in default to that society 227

Execution of Awards.

228 Awards, like a liquidator's orders should be capable of being enforced through the revenue courts, as well as the civil courts 228

No.		Para. no.
	Prevention of fraud.	
229	The Registrar should be empowered to direct the conditional attachment of property during the pendency of award proceedings	229
230	Co-operative debts should be a " first charge ", after the claims of Government for public demands and of landlords for rent, on assets created or developed by means of loans advanced by a co-operative society	230
231	Landlords to whom notice has been given that one of their tenants has joined a co-operative credit society, should be obliged to send a copy of the notice of a rent suit to the central bank, to which that society is affiliated	231
232	These increased powers should be used cautiously	232
	(*b*) LIQUIDATION.	
	General.	
233	Records of completed liquidations should be brought together in order to arrive at a probable figure for the proportion of ultimate recoveries to the demand	234
	Non-agricultural societies.	
234	A detailed examination of the burden of defaulting non-agricultural primary societies on the finance of the movement should be made ...	235
235	Liquidation proceedings of non-agricultural societies should be expedited and bad debts that have accrued from them should be written off ...	235
	Agricultural societies.	
236	Liquidators of primary agricultural societies should visit the villages concerned, and not merely work through the courts	236
237	Liquidators should make greater use of the existing privilege of free access to documents of title in registration offices and this privilege should be extended to cover the documents in the Collectorates	237

No. PARA. NO.

Agency.

238 Liquidation should ordinarily be entrusted to paid whole-time men, working under the close supervision of the department. Government should advance a sufficient sum to enable the Registrar to pay such men regularly 238

Prevention of fraud.

239 When a creditor applies for inspection of a society under section 36 of the Act, such inspection should be made very promptly and the decision, whether to liquidate or not, taken without delay 239

240 Statutory provision should be made to prevent fraudulent dissipation of assets during the period between the order of deregistration (or perhaps, the commencement of the inspection under section 36) and the decision of the appeal provided under section 39 240

Miscellaneous.

241 Good primary societies should, if possible, be preserved when liquidating a central bank ... 242

242 A rigorous policy of liquidation is deprecated but hopeless societies should be liquidated ... 242

243 The remission of fees under the Public Demands Recovery Act is not recommended ... 244

244 The Board of Revenue's decision that a liquidator's orders cannot be challenged before a Certificate Officer should be placed beyond all doubt ... 245

245 The existing practice of disposing of a surplus after liquidation of a primary society should be followed 247

CHAPTER XV.—LEGISLATION.

246 The all-India Co-operative Societies Act of 1912 should be replaced by a Provincial Act ... 248

247 Any relaxation in the limit for individual holdings of shares, which is required in special cases, should be made by the Local Government under section 46 of the present Act 249

No.		Para. no
248	The Local Government should have power under the Act to insist on amendments of the by-laws of co-operative societies	250
249	The proposal to give the by-laws of a society the force of law is not commended, though its object is supported	251
250	Section 17 of the Co-operative Societies Act should be amended, (*i*) to define more clearly what the audit report shall show, (*ii*) to provide that the officers of the society shall be legally bound to appear before the auditor and to furnish information, and (*iii*) to empower the Registrar, subject to an appeal to the Local Government, to surcharge the person or persons responsible for payments contrary to law or the rules of the society ...	252
251	The proposals to give the Registrar more legal powers to impose restrictions on the grant of loans, on borrowing and on dividends, are not supported	253; 254
252	Liquidators should have increased legal powers of getting possession of the books and documents of a deregistered society as soon as possible, of making compromises with creditors, of determining contributions, etc., in so far as they are not or cannot be provided for by statutory rules	255
253	The proposal to allow the Registrar legal powers to assess damages against officers of a society during liquidation is supported	256
254	The preamble of the Act should be amended so as to provide for registration of societies for classes other than persons of limited means ...	257
255	Some other proposals described in preceding chapters, are also supported	258

CHAPTER XVI.—Organization of the Department.

Deputy Registrars.

256	The number of Deputy Registrars should be raised from one to three and they should continue to be recruited from the Provincial Executive Service	260

No. PARA. NO.

Assistant Registrars.

257 The number of Assistant Registrars should be increased to 22 including one under training, one for leave reserve, one for special duty, and one for employment as Personal Assistant to Registrar ... 264

258 They should be recruited in future from the Subordinate Executive Service, with reduced allowances ... ... 261—264

259 Assistant Registrars should be under training for the first six months after they have joined the department and on probation for 18 months. They should attend a short course of the Sabour Training Institute and be attached to a Deputy Registrar and to an experienced Assistant Registrar, before being placed in independent charge. If not considered suitable after two years, they should be reverted ... 270

Miscellaneous.

260 The proposal for a closed service of gazetted officers in the Co-operative Department is not supported in the present circumstances, but may be considered later. The appointment of Honorary Assistant Registrars is not practicable 266, 267

261 There is no present need for a Joint Registrar, but every third year an officer suitable for appointment as Registrar should be placed on special duty for six months for training to fill the vacancy when it may occur 267

262 The proposal to have a staff of non-gazetted Government officers for co-operative work under the Assistant Registrars cannot be supported during the present financial stringency 268

263 The Chief Auditor should be replaced by a Financial Adviser to the Registrar of a considerably higher status, when funds permit 269

264 Officers of the Co-operative Department should be adequately trained 270

265 Two experienced Assistant Registrars should be placed on special duty to supervise the work of estimating the repaying capacity of members of primary societies and of separating out wilful defaulters from the others, and deciding what relief should be given to the latter 271

APPENDIX I.

Questionnaire of the Bihar and Orissa Committee on Co-operation.

This questionnaire is published in order to assist witnesses in the preparation of their evidence. It is not meant to be exhaustive, nor is it expected that every witness will deal with all the questions. It will greatly assist the work of the Committee if witnesses will kindly begin their answers to each section on a separate sheet of paper and supply six copies of their answers.

In order to arrange for calling witnesses to give oral evidence, it is necessary to ask that the answers be forwarded to the office of the Committee at Patna not later than November 20th. Witnesses will be orally examined at Patna from November 28th to December 9th inclusive, at Cuttack from December 13th to December 16th inclusive, and at Ranchi from December 21st to December 24th inclusive. Witnesses are requested to state, when forwarding their memoranda, on what dates they can conveniently attend to give oral evidence, if required. The attention of witnesses is invited to the following documents dealing with co-operation :—

(1) Report of the Committee on Co-operation, 1915 (Maclagan Committee).

(2) Report of the Royal Commission on Agriculture in India, 1928 (Chapter XI of Abridged Report or Chapter XIII of Full Report).

(3) Report of the Bihar and Orissa Provincial Banking Enquiry Committee, 1929-30 (Chapters X to XVI).

(4) Report of the Indian Central Banking Enquiry Committee, 1931 (Chapter IX).

Section A.—The general framework of the co-operative movement.

1. Are you satisfied with the way in which the different organizations inside the movement are related to one another, i.e., the primary societies, the central banks, the Provincial Bank, the Co-operative Federation and the Co-operative Department?

Section B.—Finance.

2. Is the co-operative movement in the province as a whole and in its three geographical divisions, Bihar, Chota Nagpur and Orissa, financially sound?

3. Is the supply of finance adequate for its present needs and likely to keep pace with expected future developments? If not, what fresh sources could be tapped?

4. Is the finance obtained at unnecessarily high rates? If so, have you any suggestions for obtaining cheaper finance?

5. Should primary societies and central banks accept deposits independently or as branches of the institutions to which they are affiliated? If independently, how would you co-ordinate the deposit rates of the primary, central and provincial banks and guard against excessive accumulation of deposits at any particular point?

6. What fluid resources should be held against short-term deposits, i.e., current accounts, savings bank accounts and fixed deposits in primary societies, central banks and the Provincial Bank, and what arrangement should be in force to make these resources immediately available?

7. What measures should be taken to attract long-term deposits and sell debentures? At what rates can long-term finance be normally obtained within the province and from what sources?

8. Is the existing statutory provision for reserve sufficient or excessive? What part of the reserves should be separately invested inside and outside the movement? To what extent is it safe to use the reserve as working capital in each type of society?

9. Is adequate provision made for bad debts?

10. Do you think that the margin between the borrowing and lending rates of primary societies, central banks and the Provincial Bank is too great? Do you think it practicable to lower the borrowing rate of members of primary societies in all parts of the province to 12 per cent as recommended by the Central Banking Enquiry Committee? By what methods would you reduce the expenses of co-operative banks without sacrificing their efficiency?

11. Should long-term finance be provided by the existing co-operative institutions or entirely taken over by separate co-operative land mortgage banks? If you favour the former alternative, please state what measures should be taken to improve the present arrangements? Do you accept the principles laid down in the recent circular of the Registrar, no. I of 1931, on financing primary societies? (If you favour the starting of land mortgage banks please develop your views under Section L.)

12. To what causes do you attribute the growth of overdues before and after the onset of the present general depression? What remedies do you suggest? Do you approve of the idea of refusing all loans to members in serious default?

Section C.—Audit.

13. Do you consider the present arrangements for audit satisfactory? Can a cheaper agency be used without sacrificing efficiency? How should the cost of audit be met? What do you think of the audit scheme propounded by the Central Banking Committee in paragraph 173 of their report? Should audit notes of primary societies be framed in the vernacular? How would you expedite the disposal of audit notes?

Section D.—Supervision and control.

(*N.B.*—By ' supervision ' is meant the process of examining the working of an institution, and of giving advice thereon, as well as the exercise of influence to secure that the advice is followed. By ' control ' is meant the effective enforcement of action, which the organization subject to control would otherwise decline to take.)

14. What agency should be responsible for the supervision of primary societies? Should it be the financing banks, the Co-operative Federation or some other agency?

15. If financing banks are to continue to be responsible for supervision, what should be the functions of the Federation and the Department in this respect? Does the question of protecting the interest of depositors and borrowers arise in this connection?

16. If supervision is entrusted to the Co-operative Federation, will its constitution have to be altered, and how are funds for the purpose to be raised? What effect would the divorce of financing banks from supervision have on collection and security of loans?

17. If financing banks continue to supervise, in what way should supervision be improved? Has the plan of posting supervisors to rural areas been successful? Will the present funds be adequate, and if not, how should they be supplemented?

18. What do you think should be the standard establishment for supervision?

19. Are the results of supervision disappointing by reason of lack of effective control? State the powers of control, either statutory or by application of financial pressure, or by any other means, which the following authorities can at present exercise :—

(1) The Department over each kind of institution.

(2) The Co-operative Federation over the institutions affiliated to it and, in turn, over the latters' affiliated institutions.

(3) The Provincial Bank over the institutions it finances directly or indirectly.

(4) The central banks over institutions affiliated to them.

Should control be strengthened, diminished or co-ordinated?

Section E.—Training and instruction.

20. Are the existing facilities for training the staff employed by the Department and by co-operative institutions in co-operative principles and practice adequate? Should further facilities be provided by the colleges and the Patna University, e.g., in the shape of special diplomas or optional subjects in the existing courses of studies?

21. Is the training hampered by lack of general and technical ability among the men attracted by the present emoluments of the co-operative service?

22. What measures are necessary for inculcating true principles of co-operation among members of primary societies?

23. What measures should be taken to give special training to secretaries of primary societies?

Section F.—Expansion and development.

24. Should the co-operative movement confine itself for the present to consolidation or aim at further expansion? If the latter, by what agency should the expansion be carried out? Are the present arrangements for expansion and propaganda suitable and adequate?

25. Do you consider that the movement is too closely confined to societies of the credit type? If so, what development of other activities do you recommend and by what agency? How should additional expense be met? In particular, is there great scope for godowns, sale and industrial employees' societies? (See paragraph 166 of the Bihar and Orissa Banking Enquiry Committee Report and page 225 of the Labour Commission Report.)

Section G.—Liquidation.

26. What difficulties are experienced in liquidating societies? What measures should be taken to expedite the process? Is a special officer required for supervision?

27. What do you consider should be the agency for liquidation? Should liquidation be carried out entirely at Government cost? If so, what staff and funds should be provided by Government?

28. Should reserve funds ever be divided among members after liquidation? How should balances remaining after liquidation be disposed of?

29. Has the principle of unlimited liability been applied with undue rigour on liquidation?

Section H.—The Provincial Bank.

30. Is the present constitution, organization and management of the Provincial Bank satisfactory?

31. Should the Bank have branches at Ranchi and Cuttack with a view to their ultimate evolution into separate regional apex banks?

32. Need the executive head be a trained banker with a thorough knowledge of co-operative credit? (See recommendation 23 of the Central Banking Committee.)

33. Should the Provincial Bank discount co-operative paper with the proposed Reserve Bank of India so as to raise additional short-term funds for the movement?

34. Should the Bank issue debentures for present or future commitments of a long-term character? If so, what assistance should it receive from Government?

35. Do you anticipate any difficulties in the expansion of the working capital of the Provincial Bank? If so, how do you propose to get over them?

Section J.—Central banks.

36. What should be the constitution of central banks? Are they at present too much dominated by depositors or by elements not seriously interested in co-operation?

37. What should be the proper area of a central bank or how many societies should it serve? Would it be advantageous to convert some of the weak banks into branches of stronger neighbouring banks? (See recommendation 37 of the Central Banking Committee.)

38. Should there be full time secretaries for central banks? What should be the minimum qualifications of a bank manager and what should be his position *vis-a-vis* the secretary and the directors? (See recommendation 38 of the Central Banking Committee.)

39. What other staff should banks maintain for their financing, supervising and development work?

40. Could any economy in management charges be effected by employing a lower paid staff, without serious detriment to efficiency? Have you any other suggestions for reducing management charges?

41. Does the co-existence of non-agricultural societies side by side with agricultural credit societies endanger the solvency of central banks? Should there be separate central banks for the whole

province for financing each class of non-agricultural societies? If so, what should be the relations of the Provincial Bank to such central banks?

42. Should central banks open current accounts withdrawable by cheques for primary societies?

43. To what extent should central banks engage in other banking business, besides what is strictly necessary for the financing of their affiliated societies?

44. To what extent is it desirable or possible for all central banks to have uniform rates of interest for deposits? Do you advocate that the rates of interest should be automatically raised or lowered in sympathy with variations of the rates charged by the Provincial Bank?

45. Is the present arrangement, by which deposits in all central banks ordinarily fall due for repayment on the same date, still convenient?

46. Should the magnitude of loans given to a society be regulated by the amount of share capital held by the society in the central bank?

47. Should a central bank lend to a primary society at concession rates up to the extent of the reserve fund of the primary society in deposit with the central bank? If so, what should be the magnitude of the concession? (See recommendation 21 of the Central Banking Committee.)

48. How do you propose to reduce the delays that occur in the granting of loans to primary societies?

49. On whose recommendation should loans be granted? How far need information, which the primary society requires before accepting a loan application of a member, be passed on to the central bank?

50. Do you consider it desirable to debar persons in serious default to co-operative societies from serving as directors of central banks? Is it possible to devise a plan which will increase the responsibility of individual directors for the sound position of their central banks?

Section K.—Primary agricultural credit societies.

51. Do members and panches of primary societies understand their rights and responsibilities as members and managers of an unlimited liability co-operative society? Are the societies generally dominated by single individuals? What are the causes and remedies for such a state of things, if it exists? If you consider illiteracy of members one of the causes, state what percentage of members are illiterate.

52. Are the loans of members generally beyond their repaying capacity? How can this capacity be improved?

53. How would you guard against the dangers of facile credit? Do you consider the present system of advancing separate loans to primary societies with fixed terms of repayment, according to the members' individual requirements, to be satisfactory? If not, do you approve of substituting a system of normal credits, by which each society would fix its normal credit according to the annual requirements of its members and their capacity to repay and draw upon that credit as required? What checks would be necessary, if such a system were introduced and what classes of loans should be excluded for it?

54. How should the maximum borrowing powers of members and societies be fixed and by whom? Is the present system of basing loans on the *haisiyat* of capital assets working properly? Should moveable property be included in the *haisiyat* of ordinary agriculturists? Would it be advisable to base loans on capacity to repay and, if so, how can that capacity be best estimated?

55. To what extent are *benami* loans given?

56. Are shares (1) taken by primary societies in central banks, (2) taken by members in primary societies ever paid for by an additional loan? Are repayments of loans or investment of savings ever fictitious transactions?

57. Are loans granted by primary societies largely monopolized by a few of the most influential members? If so, how can this be remedied? Should the individuals composing the panchayat be made liable as guarantors for loans issued to members in excess of duly authorized maximum limits? (See recommendation 36 of the Central Banking Committee.)

58. Should loans by primary agricultural credit societies be limited to short-term and medium-term loans?

59. Are the present arrangements for enforcing collection by way of award satisfactory? Should central banks be empowered to apply for awards on behalf of affiliated societies against members? Is there any objection to, or legal difficulty in the way of, enforcing the liability of sureties more rigorously than is done at present?

60. Do you consider the present practice in regard to taking collateral security by way of mortgage or requiring sureties satisfactory?

61. Are restrictions on free transferability of tenant rights hampering the proper working of primary agricultural societies? Do you think that such restrictions should be removed or reduced?

62. Have you any experience of the working of grain golas? If so, have you any suggestions to make for extending this type of agricultural credit society or for improving the working of existing societies?

63. When a primary agricultural society ceases to require credit, how should its connection with the central bank be maintained, what contributions should it make towards cost of supervision, and how should collection of such contributions be enforced?

Section L.—Land mortgage banks.

64. What are the impediments to the starting of separate land mortgage banks in your locality?

65. What should be the constitution, capital and area of operation of such a bank?

66. Should the organization and supervision of such banks be entrusted to a special staff of the Co-operative Department?

67. Do you advocate the limitation of the operation of land mortgage banks to any particular class of holders of landed property?

Section M.—Other credit societies.

68. What are the causes of the slow progress of trade banks? How are their lending and borrowing operations controlled by their financing banks? Should such societies be closed to the members of the professional classes?

69. What are the causes of weakness of societies supplying credit to artisans? Should such societies be supervised by officers of the Industries Department?

70. Is there much scope in this province for employee and labour societies? Should they be organized on local or sectional lines? To what extent should employers be represented on the management of their financing banks?

Section N.—Non-credit societies.

71. Have you any experience of the working of co-operative stores in the province? Why do they not spread among the poorer section of the population in towns and villages?

72. What were the causes of the failure of the few co-operative sale societies which have been started in this province? Do you think there are great difficulties in their development? If so, how do you propose to overcome them?

73. Do you know of any other types of non-credit societies working in the province? If so, please describe them. Why is co-operative production so uncommon in this province?

Section O.—Federation.

74. What should be the constitution and functions of the Co-operative Federation?

75. Is its development and propaganda service working satisfactorily? Should it be merged into a common co-operative service?

76. Are Divisional Federation Boards useful?

77. What funds are required for financing the activities of the Federation? How should they be provided?

Section P.—The Co-operative Department.

78. What should be the organization and strength of the Co-operative Department for discharging its functions of audit, supervision, development and liquidation?

79. Is the Department able to get the right type of men, and are they adequately trained for their work? Does the Department suffer from their frequent transfer?

80. Is the Registrar's work too heavy and should he be assisted by a Joint Registrar or by Deputy Registrars?

81. What should be the duties, emoluments and areas of jurisdiction of Assistant Registrars? Should they be recruited from the Provincial or Subordinate Executive Service or from a closed Co-operative Service? Should there be Junior Assistant Registrars? Do you recommend the appointment of Honorary Assistant Registrars? If so, please develop your views.

Section Q.—Legislation.

82. In what respects does the present Co-operative Societies Act require to be amended or replaced by a Provincial Act? Are any penal sections to check misfeasance necessary?

83. Are any changes required in the Tenancy Acts, the Public Demands Recovery Act or the Provincial Insolvency Act for the better working of the co-operative movement?

84. Have any legal difficulties in regard to liquidation or the enforcement of awards come to your notice? If so, how would you remove them?

Section R.—General.

85. What financial and other kind of aid should Government provide for the future growth of the movement?

86. By what means can better co-operation be ensured between the Co-operative Department and other departments of Government, especially the Agricultural and Veterinary Departments?

87. Do you advocate the creation of a common service for all paid workers in co-operation other than Government servants? If so, how would you propose that the service should be organized and controlled, and in particular how would transfers from one appointment to another be arranged?

88. Have you any suggestions for increasing the interest in co-operation displayed by landlords, *mahajans* and other sections of the public?

89. Is corruption a serious danger to the co-operative movement in this province? If so, where is it principally to be found, and what steps should be taken to check it?

90. What special measures are necessary for the spread of co-operation in the backward tracts?

APPENDIX II.

List of witnesses formally examined in order of oral examination.

Patna Centre.

1. E. C. Ansorge, I.C.S., Registrar, Co-operative Societies, Bihar and Orissa.
2. Mr. V. M. Thakur, Secretary, Bihar and Orissa Provincial Co-operative Bank.
3. Babu Durga Das Sondhi, Secretary, Bihar and Orissa Co-operative Federation.
4. Mr. P. Sen Gupta, Chief Auditor, Co-operative Societies, Bihar and Orissa.
5. Babu Mathura Prasad, Assistant Registrar, Co-operative Societies, Patna.
6. Rai Sahib Jadu Prasad, Honorary Secretary, Jamui Central Co-operative Bank.
7. Babu Shyam Sundar Lal, Director, Bhagalpur Central Co-operative Bank.
8. Mr. P. T. Mansfield, I.C.S., Director of Land Records and Surveys, Bihar and Orissa.
9. Babu Akhouri Basudeva Narayan Sinha, Director, Provincial Civil Service Association, Ltd.
10. Professor B. B. Mukherji, Principal, Durga Prasad Co-operative Training Institute.
11. Babu Mahendra Prasad, Manager, Bank of Bihar, Chapra.
12. Rai Bahadur Durga Prasad, Collector of Chapra.
13. Babu Jugal Kishore Singh, Assistant Registrar, Co-operative Societies, Bhagalpur.
14. Babu Nalini Mohan Bhaduri, Director, Madhepura Central Co-operative Bank.
15. Babu Sawalia Behari Lal Verma, Director, Chapra Central Co-operative Union.
16. Babu Shankerjee, Assistant Auditor, Co-operative Societies.

17. Babu Vigyan Swarup Akshouri, Assistant Auditor, Co-operative Societies.

18. Babu Bankey Behari Lal, Manager, Gopalganj Central Co-operative Bank.

19. Maulavi Ali Ahsan, Manager, Beguserai Central Co-operative Bank.

20. Rai Sahib Raj Prakash Narain, Chairman, Futwa Central Co-operative Union.

21. Babu Lakshminath Misra, Director, Rohika Central Co-operative Union.

Puri Centre.

22. Rai Bahadur Radha Charan Das, Subdivisional Officer, Khurda.

23. Babu Ram Chandra Chottaray, Honorary Secretary, Khurda Central Co-operative Bank.

24. Rai Bahadur Sudersan Das, Chairman, Puri Central Co-operative Bank.

25. Babu Brahmananda Mahanty, Honorary Secretary, Puri Central Co-operative Bank.

Cuttack Centre.

26. Mr. N. K. Roy, Deputy Registrar, Co-operative Societies, Orissa and Chota Nagpur Divisions.

27. Babu Satis Chandra Ray, Assistant Registrar, Co-operative Societies, Cuttack.

28. Babu Sarat Chandra Mukherji, Additional Assistant Registrar, Co-operative Societies, Cuttack.

29. Babu Ram Chandra Das, Honorary Secretary, Cuttack Central Co-operative Bank.

30. Rai Sahib Bhikari Charan Patnaik
31. Babu Sharat Chandra Ghose
32. Babu Susil Chandra Palit

} Directors, Cuttack Central Co-operative Bank.

33. Mr. P. C. Patra, Deputy Collector, Balasore.

Ranchi Centre.

34. Rai Bahadur Radha Gobinda Choudhury, Ranchi Central Co-operative Bank.

35. Rev. J. Lakra, Chairman, Chota Nagpur Central Christian Co-operative Bank.

36. Babu Nawal Kishore Prasad, Honorary Secretary, Hazaribagh Central Co-operative Bank.

37. Rai Bahadur Nilmoni Dey, retired Deputy Registrar of Co-operative Societies, Ranchi.

APPENDIX III.

Forms used by central co-operative banks in preparing the family budget and haisiyat statements of members of primary agricultural credit societies affiliated to them, referred to in paragraph 52, Chapter IV.

STATEMENT A.

Haisiyat statement of.....Member of.....Society.

ASSETS.

Serial no.	Description of property.	Number, quantity or area.	Value.
1	House property ..	..	
2	Zamindari property	..	
3	Agricultural lands ..	..	
4	Investments in deposits, shares or loans.		
5	Jewellery ..	..	
6	Live stock ..	..	
	Total	..	

LIABILITIES.

1	Arrear rents or revenue	..
2	Debts due to Mahajans	..
3	Interest due on item 2	..
4	Debts due to co-operative society	
5	Interest due on item 4	..
6	Any other item ..	..
	Total	..

STATEMENT B.

.....Society,

.....District.

Family Budget of.....member.

Average Annual Income.

From Agriculture :—

Name of crop.	Area under the crop.	Normal produce (average of 5 years).	Average value of 4 years from 1926 to 1929.	Average value of 2 years from 1930 to 1931.
1	2	3	4	5
(*a*) Paddy				
(*b*) Rabi				
(*c*) Special, e.g., sugarcane, chillies, tobacco, jute, groundnuts and oil-seeds, etc.				
(*d*) Fruits and vegetable gardening.				
			From 1926 to 1929.	For 1930 and 1931.
2. From the exploitation of other raw materials, e.g., from lac rearing, silk-worm rearing, cattle rearing, poultry, hides, etc.				
Total.				
			From 1926 to 1929.	For 1930 and 1931.
3. From Service, profession or labour for wages (including the monetary value of payments in kind).				
4. From Trade, shop-keeping, or cart-plying ..				
5. From Zamindari				
6. From Arts and Industries such as weaving; shoe-making, tanning, pottery, metal work, etc.				
Total Income ..				
Deficit ..				
Grand Total ..				

STATEMENT B—*contd.*

Number of members in the family.....

Average Annual expenditure.

	From 1926 to 1929.	For 1930 and 1931.
1. (*a*) On fooding (including lighting and fuel		
(*b*) On intoxicating drinks and drugs, tobacco, betelnut, etc.		
2. On clothing, etc. (including shoes, caps, umbrellas and toilette requisites).		
3. On medical treatment		
4. On education of children		
*5. On ceremonials, festivities, pilgrimages, religious rites, etc. (including death and marriage expenses).		
†6. On agriculture		
(*a*) Seeds		
(*b*) Labour		
(*c*) Renewal of cattle		
(*d*) Fodder of cattle		
7. On rent and revenue		
8. Taxes and subscriptions		
9. On repairs to house or well (and renewal of furniture and utensils).		
10. On annual instalments of debts ..		
(*a*) To Mahajans		
(*b*) To Co-operative Society ..		
11. Interest payable annually		
12. Litigation		
13. Any other item including losses on trade, etc.		
Total Expenditure ..	..	..
Surplus ..	..	..
Grand Total ..	..	..

* Presuming that a marriage takes place once in.....years and a death once in.....years.

† 6(c). This figure may be obtained by taking into consideration the average period during which cattle are replaced and dividing the local value by this period.

Consolidated statements for the whole society.

STATEMENT A.

Assets.		Liabilities.	
1.	As for individual member.	1.	As for individual member.
2.		2.	
3.		3.	
4.		4.	
5.		5.	
6.		6.	
Total		Total	

STATEMENT B.

Average annual income.		Average annual expenditure.	
1.	As for individuals but without details for Agriculture.	1.	As for individuals but without details for Agriculture.
2.		2.	
3.		3.	
etc.		etc.	
etc.		etc.	
Total		Total	

APPENDIX IV.

Form in which the family budget and haisiyat figures of primary agricultural credit societies of each central bank or union were tabulated in the office of the Committee.

1. Ratio of number of societies investigated to total number of agricultural credit societies affiliated to the bank.

2. Total assets of societies investigated :—

   (*a*) Liquid assets .. ..

   (*b*) Frozen assets .. ..

   Total ..

3. Liabilities of societies investigated :—

   (*a*) Debt including interest due to landlord and revenue authority.

   (*b*) Debt including interest due to mahajans and outside agencies.

   (*c*) Debt including interest due to co-operative societies.

   (*d*) Miscellaneous .. ..

   Total ..

4. Difference between 2 and 3 (+ or —).

5. Total number of family budgets investigated :—	1926—29.	1930-31.
(*a*) Number reporting surplus ..		
(*b*) Number reporting deficit ..		
(*c*) Number reporting neither surplus nor deficit.		
Total ..		

	1926—29.	1930-31.
6. Percentage of deficit budgets to total number investigated.		
7. Average income of the total number of persons investigated.		
8. Average expenditure of persons investigated.		
9. Difference between 7 and 8 (+ or —)		
10. Number of societies reporting excess of average expenditure over average income.		
11. Proportion of agricultural income to non-agricultural income of persons investigated.		
12. Proportion of income from Arts and Industries to rest of income.		
13. Percentage of expenditure on 1, 2, 3, 4 and 9 (maintenance) to the total expenditure.		
14. Percentage of expenditure on 6 (agriculture) to total expenditure.		
15. Percentage of expenditure on 7 and 8 (rent, land revenue and taxes) to total expenditure.		
16. Percentage of expenditure on 5 (ceremonies) to total expenditure.		
17. Percentage of expenditure on 12 and 13 (litigation and other unproductive expenditure) to total expenditure.		
18. Percentage of expenditure on 11 (interest) to total expenditure.		
19. Percentage of expenditure on 10 (kists paid in discharge of debt) to total expenditure.		

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